

II: The March Crisis and the Berlin Airlift

1947 was a year of confrontation. In July the Soviets rejected the aid offered through the Marshall Plan and forced other Eastern Bloc countries to do the same in an effort to counter the growing American influence in Europe. In September, the Communist International was apparently reborn as the COMINFORM. At the end of the year the growing stalemate in the roundrobin Conferences of Foreign Ministers (CFM) climaxed with a complete breakdown in London.

These ominous developments prompted equally dire warnings from within the US intelligence establishment. On 22 December a CIA Intelligence Memorandum warned President Truman that the Soviets would try, through obstructionism and harassment, to force the Western Allies out of Berlin. On 26 and 30 December CIA's analysis was seconded by similar missives from the State Department in Washington, followed by a cable from the Ambassador to Moscow, Lt. Gen. Walter Bedell Smith.

In Berlin itself, the political atmosphere grew more frigid with the replacement of the Soviet Military Governor, Marshal Georgiy Zhukov, by the hardline Marshal Vassily Sokolovskiy in March 1946. The US Military Governor in Germany, Gen. Lucius D. Clay, had hoped to work cooperatively with his Soviet counterparts, but in October he began to worry about the exposed position of the US garrison in Berlin as the Soviets stepped up security for military exercises inside the eastern zone. Rumors began to circulate that dependents would soon be sent home. The Allied garrison in Berlin became increasingly jittery over the winter. In January 1948 the Soviets began to interfere with trains to Berlin from the western zones, and on the 20th of January Marshal Sokolovskiy abruptly rejected Clay's proposals for currency reform within occupied Germany. The situation worsened over February when the Czech Communist Party overthrew the coalition government in Prague, even as the Allies were discussing plans for a new Western German state. Shuttling back and forth to London, Clay felt increasingly uneasy, and finally, on 5 March, Clay cabled his concerns to the Joint Chiefs of Staff in Washington:

For many months, based on logical analysis, I have felt and held that war was unlikely for at least ten years. Within the last few weeks, I have felt a subtle change in Soviet attitude which I cannot define but which now gives me a feeling that it may come with dramatic suddenness. I cannot support this change in my own thinking with any data or outward evidence in relationships other than to describe it as a feeling of a new tenseness in every Soviet individual with whom we have official relations. I am unable to submit any official report in the absence of supporting data but my feeling is real. You may advise the Chief of Staff of this for whatever it may be worth if you feel it advisable.⁵

Although Clay later denied that he had intended his carefully worded telegram to be a war-warning, it was interpreted as such by the Pentagon. At the behest of JCS Chairman Omar N. Bradley, the Intelligence Advisory Committee ordered an ad hoc committee chaired by CIA's Office of Reports and Estimates to draft an Intelligence Memorandum for the President judging the likelihood that the confrontation in Central Europe would escalate into war. The committee quickly became mired in bureaucratic rivalries. Army and Air Force representatives feared that passage of the defense budget then being debated in Congress might hang on what was said about Soviet intentions in Europe. Seemingly at particular risk was the Army's proposal for universal military training. The Office of

Naval Intelligence, by contrast, remained conservative in its estimates and resisted saying anything that suggested war might break out in 1948. Consensus was, to say the least, elusive. Although--after an initial period of alarm--no one on the committee was willing to say that war was likely, the military representatives refused to say that it was unlikely.

Finally, on 16 March DCI Roscoe Hillenkoetter demanded straight answers from the committee to three questions, to be given to the President that morning:

- (1) Will the Soviets deliberately provoke war in the next 30 days?
- (2) In the next 60 days?
- (3) In 1948?

After some further hedging, the committee answered the first two questions in the negative and deferred the answer to the third, to be dealt with by ORE in an Estimate. A rider was attached to the memorandum dealing with the Army's concerns for the defense budget still before Congress. DCI Hillenkoetter took advantage of the opportunity to append yet another memorandum reminding President Truman that CIA had analyzed Soviet intentions in these same terms on 22 December. The promised follow-on Estimate, ORE 22-48, *The Possibility of Direct Soviet Action During 1948*, was published on 2 April. In it--and in two similar estimates that followed over 1948-49--ORE discounted the possibility that the Soviet Union would deliberately initiate a war in the immediate future. However, ORE did underline the likelihood that the Soviet Union would apply increased political pressure to the US position in Europe, and warned that, in an atmosphere of increasing tension, the chances that war might break out by accident would increase.¹¹

In Germany, Washington's alarm over Clay's 5 March telegram came as something of a surprise. On 12 March a quick poll of intelligence officers attached to the various commands in Germany produced a near-consensus that the Soviets were not ready for war¹²--only Clay's G-2, Maj. Gen. Robert L. Walsh disagreed. While this was going on, the Soviets moved some 20,000 troops into frontal areas from within the Eastern bloc, along with an additional 12,000 MVD (internal security) troops from the Soviet Union. On 19 March a planned Communist takeover in Helsinki failed when the Finnish Minister of the Interior, Yrjo Leino, himself a Communist, alerted the Finnish army. The next day Sokolovskiy and the entire Soviet delegation walked out of the Allied Control Council in Berlin. This was followed by two weeks of exercises involving Soviet ground forces and police units inside East Germany. At the same time, the Soviets staged a series of carefully orchestrated incidents near the intra-German border, including the kidnapping and interrogation of German civilians, apparently with the intent of convincing Allied observers that the Soviets were preparing to take some undefined military action.

In the time that had passed between the first Soviet provocations and the staged military incidents at the end of March, the Western Allies had the opportunity to consider possible Soviet actions in detail. As might be expected, the onset of large-scale Soviet military exercises triggered an alert in the Western zones, but by the time the Soviets began staging incidents along the intra-German border the debate over the Soviets' intentions for the near future was over. When, on 30 March, Sokolovskiy's deputy formally notified his Western counterparts that, effective midnight, 31 March, all Allied traffic through the Soviet zone would be forced to submit to inspection, both General Clay and his superiors

in Washington knew that they faced a political challenge to the US presence in Berlin--not the threat of war.

From the intelligence standpoint, the chief effect of the March crisis was to provide a precedent by which future Soviet actions could be judged. In effect, Stalin had telegraphed his punches, so that, by the onset of the Berlin blockade that June, Western analysts had a better understanding of just how far he was willing to go. Under these circumstances, the outcome of the June crisis was pretty much a foregone conclusion--assuming that Western resolve remained intact.

Stalin hoped, of course, that by challenging the Allied position in Berlin, he would be attacking the Western coalition at its weakest point. Anticipating a postwar crisis in capitalist system, Stalin believed that Berlin was the point where, if he pushed hard enough, he would cause the Western alliance to come apart at the seams.

In pursuit of this goal, Soviet harassment of Allied military trains to Berlin continued over April and May, all but halting passenger traffic, although food shipments continued. On 5 April a Soviet Yak-9 fighter harassing a British airliner inadvertently collided with it, killing all on board both aircraft. Simultaneously, the Soviet Berlin Commandant, Gen. Alexander Kotikov, launched a blatant campaign to hamstring the Kommandatura. The scale of Soviet provocations increased until 16 June, when Kotikov denounced the American Commandant, Col. Frank Howley, for leaving his deputy to represent him in a meeting of the Kommandatura and walked out himself, thus abrogating the last vestiges of the quadripartite administration of Berlin. Over 18-20 June the Soviets blocked the Western powers' plans for the introduction of a reformed currency into Berlin. On 19 June they finally halted all rail traffic into the city, and on 23 June they halted road and barge traffic and cut off the supply of electricity to West Berlin. The Soviet blockade of Berlin had begun. On 26 June the first Allied transports began to airlift supplies into Berlin.

The Berlin blockade illustrated just how poorly Stalin was being served by his intelligence services. Soviet planning for the blockade was superficial at best: the Soviets apparently never anticipated that the West might hold out, while no one in the Kremlin seems to have realized how much the eastern zone itself was economically dependent on the West. Moreover, there is evidence that Soviet intelligence officers feared to bring bad news to Stalin and "cooked the books" in their reporting about the effectiveness of the blockade and Allied airlift. Had they not done so, the Soviet blockade might never have gone on as long as did, despite its manifest failure.

By contrast, the record shows that US reporting accurately gauged Soviet intentions both before and during the crisis. In Washington, ORE persisted in its belief that Stalin would not deliberately push the Berlin confrontation to war. Meanwhile, CIA intelligence officers provided insights into the strengths and weaknesses in Soviet planning²³ and were able to provide some of the first indications of cracks in Soviet resolve. Policymakers in Washington were also kept apprised of the situation in Berlin through a stream of reporting on Soviet intentions and operations.

II-1: Memorandum for the Chairman, Joint Chiefs of Staff, General of the Army Omar Bradley, 31 July 1947 (MORI No. 144273).

Tensions were running high in the summer of 1947, as reflected in this extract from a routine status report prepared in Berlin. The writer of the report would not have used such candor in referring to his military compatriots, were the report intended for other than internal consumption. It is interesting that the branch chief in Washington, future DCI Richard Helms, felt the report to be important enough that it be shared with JCS Chief Bradley without altering the language.

II-2: Memorandum for the President, 16 March 1948 (MORI No. 9259).

DCI Hillenkoeter's memorandum brought the curtain down on the March 1948 "war scare." Because General Clay's so-called "war warning" emanated from outside normal intelligence channels, Hillenkoetter apparently felt that CIA's credibility was at stake. He thus appended a CIA memorandum from the previous December evaluating the situation and forecasting Soviet moves. That CIA was still a very young agency is reflected in the use of recycled Central Intelligence Group (CIG) stationary.

II-3: ORE 22-48: Possibility of Direct Soviet Military Action During 1948, 2 April 1948.

II-4: ORE 22-48, Addendum: Possibility of Direct Soviet Military Action During 1948-49, 16 September 1948.

II-5: ORE 46-49: The Possibility of Direct Soviet Military Action During 1949, 3 May 1949.

One of the most valuable functions played by the Intelligence Community during the crisis of 1948-49 was to provide policymakers with perspective on the changing situation in Berlin and Germany. In these three Estimates, the Office of Reports and Estimates (ORE) used assessments of Soviet capabilities to discount the possibility of Soviet military action in 1948 and 1949. Reporting of this kind helped policymakers understand Soviet actions in Berlin in context with broader Soviet intentions. Throughout this period, however, ORE was handicapped by a consistent lack of reliable information on Soviet intentions and capabilities, a deficiency clearly reflected in these Estimates. Interesting, too, is the fact that all these Estimates warn of the likelihood that war might break out inadvertently, should tensions continue to run high--a reminder that the memories of Sarajevo and the outbreak of World War I lingered in the minds of high-level officials on both sides.

II-6: ORE 29-48: Possible Program of Future Soviet Moves in Germany, 28 April 1948.

In the aftermath of the March Crisis, ORE attempted to forecast possible Soviet moves in Germany. Although the Estimate raises the possibility of a blockade, the emphasis throughout is on the projected establishment of a Soviet-backed East German Communist regime.

II-7: Memorandum for the President, 9 June 1948 (MORI No. 9260).

Although the lines of confrontation certainly were being drawn, in June 1948 the situation in Germany remained fluid. This memorandum, prepared just before the Soviets severed land links between the eastern zone and the west, discusses likely Soviet reactions to the proposed merger of the three western zones of occupied Germany. It serves as a reminder of just how new--and unprecedented--the Cold War was in 1948. The governments here discussed as being established "provisionally" were to last nearly half a century.

II-8: ORE 41-48: Effect of Soviet Restrictions on the US Position in Berlin, 14 June 1948.

But a few days before the onset of the Berlin blockade (20 June), ORE considered the impact of Soviet efforts to restrict US military rail traffic to and from Berlin. Already Berlin's value as a base for the collection of strategic intelligence inside Soviet-dominated Europe is being emphasized.

II-9: CIA Memorandum for the Secretary of Defense, Subject: Situation in Berlin, 28 June 1948 (MORI No.144438).

II-10: CIA Memorandum for the Secretary of Defense, Current Subject: Situation in Berlin, 30 June 1948 (MORI No. 145210).

II-11: Memorandum for the President: Russian Directive Indicating Soviets Intend to Incorporate Berlin into the Soviet Zone, 30 June 1948 (MORI No. 97992).

II-12: Intelligence Report: Russian Unilateral Dismissal and Appointment of Berlin Police Officials, 15 July 1948 (MORI No. 145211).

The four intelligence reports above demonstrate Soviet confidence that the blockade would bring an end to the quadripartite regime in Berlin. The reports of Soviet planning to assume full control of Berlin (Documents II-9, II-11, II-12) reveal a thoroughness in operational matters that contrasts sharply with the more strategic failure to consider the effect the blockade would have on the East German economy. Document II-10 shows how the Soviets depended on German food supplies, even as they were taking actions that would throttle the East German economy. The documents also suggest that the Soviets never expected West Berlin to hold out for nearly a year.

II-13: CIA 7-48: Review of the World Situation, 14 July 1948 (MORI: 8840).

The dramatic success of the Berlin airlift has tended to obscure just how perilous a situation Berlin

was in the summer of 1948. As this CIA report shows, there were real doubts about the Allies' ability to maintain themselves in Berlin. Moreover, with both the Western and Eastern alliances in flux, more than the Allied position in central Europe was at stake. As the confrontation dragged on, each side's freedom of action gradually diminished.

II-14: Memorandum for the President on the Situation in Berlin, 10 December 1948 (MORI No. 145213).

II-15: Intelligence Report: Soviet Measures to Further Tighten the Sector Blockade in Berlin, 30 December 1948 (MORI45214).

II-16: Soviet Plans to Control the Western Sectors of Berlin, 6 January 1949 (MORI No. 145215).

The Allied capability to supply West Berlin with needed food and fuel was strained to the utmost in the frigid North European winter. Apparently believing that they could bring the confrontation to a decisive conclusion, the Soviets prepared to isolate West Berlin from the eastern half of the city and to abrogate what remained of the quadripartite governing arrangements. Once again, a Soviet intelligence failure is revealed in their ignorance of the economic interdependence of the city as a whole. Soviet efforts to halt economic intercourse between East and West Berlin failed, while the winter brought only a redoubling of Western supply efforts.

II-17: IR: SED preparations for Illegal Work in West Berlin, 7 March 1949 (MORI No. 145217).

II-18: IR: Progress of the SED Membership Purge, 7 March 1949 (MORI No. 145218).

By the spring of 1949 a change in mood was evident in the East German Communist leadership, if not in Moscow. Having apparently reconciled themselves to the failure of the blockade to drive the Western powers out of Berlin, the SED prepared itself for long-term subversive activity in the western half of the city and began a purge of its leadership cadres.

II-19: CIA 5-49: Review of the World Situation, 17 May 1949 (MORI No. 8872).

With the blockade at an end, Western optimism is shown in the hope that the Soviets would be willing to negotiate a solution to the "German question." In fact, a solution already had been found: in the division of Germany into two separate states. Probably neither side recognized at this point just how enduring this solution was to be.

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EXTRACT

The month of June marked a new and severe crisis in the "Battle of Berlin". The City Assembly of Berlin by a vote of 87 to 17, elected Ernst Reuter as Oberbürgermeister, replacing Ostrowski who resigned after a vote of no-confidence in the Assembly. The Russians at the Berlin Kommandatura level refused to approve Reuter's election, and the matter has been referred to the Allied Control Council, where presumably the same Russian veto will be met. The constitutional issues, the statements of Allied officials, the maneuvering of the Berlin parties are adequately covered in news dispatches and intelligence reports. (In this connection attention is called to the article in ODI Weekly Summary, No. 59.)

The extent of the American setback in the Battle of Berlin was reflected in a recent press conference of the Assistant Deputy Military Governor, Brigadier General Ryan. Some 70 or 80 American correspondents "ganged up" on General Ryan in an extremely vigorous fashion, criticizing severely the American role in the quadripartite government of Berlin. When General Ryan pointed out the record of some 900 Kommandatura agreements, the New York Times representative acidly inquired whether this represented 900 American concessions. Colonel Howley, head of Military Government, Berlin Sector, challenged the proposition that the U. S. is losing the Battle of Berlin, and rather rashly suggested a poll of opinion among the correspondents. A show of hands was immediately called for, and every correspondent in the room and a number of officials, including Colonel Howley's chief political officer, voted that the battle was being lost.

Although it is true that there is a tendency of Americans in Berlin to magnify the significance of local developments, the unanimity of this pessimistic verdict is certainly sobering. One of the most disturbing features of the present state of mind, is the recurrence of what has been called the "invasion of Zehlendorf jitters". It may be recalled that exactly one year ago there occurred a near panic in American military command, touched off by a combination of wild rumors and apparently responsible intelligence reports to the effect that Russians were planning a sort of Pearl Harbor coup in Berlin, as a prelude to over-running western Europe. Elaborate and in some respects rather farcical plans were drawn up to evacuate women and children by air from Tempelhof, while defending American installations to the bitter end. Inevitably the precautionary measures called the attention of the German public to the scare, causing acute demoralization and loss of confidence in American occupation.

It is perhaps merely a seasonal phenomenon that the same atmosphere again prevails. High ranking Army officers speak seriously of the

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"Asiatic cunning" of the Soviets prompting a surprise attack. More thoughtful conjecture centers on the effect of the transfer of the bizonal economic headquarters to Frankfurt, and the prospect of a hardening East-West division in Germany, which would make our position in Berlin untenable. A Major General of SUCOM has expressed his private opinion that the effort of holding out in Berlin may be costing us more than it is worth. So far, indeed, General Clay has made it fully apparent that he entertains no thoughts of a withdrawal from Berlin, but firmly intends to stay on, as he put it, "to the bitter end". General Y's repeated public assurances have helped to calm German fears, but each new set-back of quadripartite relations, whether reflected on the level of the failure of the Paris Conference, or of the Berlin City Assembly, touches off the rumor chain again.

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II-2: Memorandum for the President, 16 March 1948 (MORI: 9259).

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NLT 77-79

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CENTRAL INTELLIGENCE GROUP AGENCY
2430 E STREET NW.
WASHINGTON 25, D. C.

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16 March 1948

MEMORANDUM FOR THE PRESIDENT

The Central Intelligence Agency and the intelligence organizations of the Departments of State, War, Navy and Air Force agree that if the Congress passes a universal military training act and/or a selective service act these measures, taken singly or together, will not of themselves cause the USSR to resort to military action within the next 60 days.

R. H. Hillenkoetter
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Rear Admiral, USN
Director of Central Intelligence

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON 25, D.C.

16 March 1948

MEMORANDUM FOR THE PRESIDENT

The Central Intelligence Agency and the intelligence organizations of the Departments of State, War, Navy and Air Force have reassessed Soviet intentions for the next sixty days and concur in the following conclusions with respect to the possibility of Soviet military action:

a. -- An examination of all pertinent available information has produced no reliable evidence that the USSR intends to resort to military action within the next sixty days.

b. -- The weight of logic, as well as evidence, also leads to the conclusion that the USSR will not resort to military action within the next sixty days.

c. -- There is, nevertheless, the ever present possibility that some miscalculation or incident may result in military movements toward areas, at present unoccupied by the USSR.

R. H. Hillenkoetter
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Rear Admiral, USN
Director of Central Intelligence

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON 25, D. C.

16 March 1948

MEMORANDUM FOR THE PRESIDENT

Under date of 22 December 1947, CIA reported that there was a possibility of steps being taken in Berlin by the Soviet authorities to force the other occupying powers to remove from Berlin. Delay in the formation of a separate Eastern German Government and in Soviet attempts to force the Western Powers from Berlin has probably been caused in large measure by the firm attitude of US officials in Berlin. While no further reports have been received indicating that the USSR has decided to force the Western Powers from Berlin, the recent US, UK, France, Benelux discussions in London concerning the formation of a West German State to be included in a Western European Union invite some form of Soviet response stronger than the mere protests received so far.

Soviet response will be timed to follow overt allied implementation of the London decisions, and will consist of the announcement of plans, such as a plebiscite, for an Eastern Zone "all-German state", claiming to represent the whole German people. Announcement of such plans would be followed by an intensified Soviet campaign to oust the Western Powers from Berlin. The most urgent dangers are: (1) "incidents" arising from the presence in Berlin of young, undisciplined troops; (2) aggravation of the situation by such German malcontents as want an East-West war; (3) any tendency towards war hysteria or lack of firmness and patience on the part of US officials in Berlin.

William L. Hall
R. H. Hillenkoetter
Rear Admiral, USN
Director of Central Intelligence

Encl:
Copy, Memo for President,
12/22/47

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22 December 1947

MEMORANDUM FOR THE PRESIDENT

The breakdown of the GCM in London may cause the USSR to undertake a program of intensified obstructionism and calculated insult in an effort to force the US and the other Western Powers to withdraw from Berlin all representatives except a small Allied Control Authority group. The implementation of such a program could create a situation of great tension which might lead to armed clashes between Soviet personnel and that of the other occupying powers.

The failure of the GCM to reach agreement on any question and the GCM's subsequent indefinite adjournment will result in an accelerated consolidation of eastern Germany. The USSR will attempt to incorporate thoroughly the economic system of its Zone into the Soviet economy and to orient the political system still more closely to the Soviet ideology. Soviet authorities will encounter difficulties in accomplishing both objectives because of the presence of US officials and troops in Berlin.

The presence there of this personnel hinders the ruthless and forcible communization of all eastern Germany, helps to sustain non-Communist opposition, and demonstrates that the US does not intend to abandon or partition the country. Berlin, of course, could hardly serve as the capital of an eastern German state, should the USSR eventually establish one; so long as the Western Powers maintain troops in the city. The Kremlin is aware of this situation.

The Kremlin is aware, also, that the present quadripartite occupation of Berlin furnishes the US with an excellent listening post and a base of operations for intelligence activities in the Eastern Zone as well as providing political refugees from Soviet areas with a convenient haven. Masters of propaganda themselves, the Soviet authorities are highly sensitive to the great propaganda value of the continued presence of US and the other Western Power forces and the guarantees they provide of relative political freedom for the residents of the city.

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The USSR, consequently, cannot expect the US and the other Western Powers to evacuate the city voluntarily. The USSR, therefore, will probably use every means short of armed force to compel these powers to leave the city.

These devices may include additional obstruction to transport and travel to and within the city, "failure" of services such as electric supply, reduction of that part of the food supply which comes from the Soviet Zone, flagrant violations of Kommandatura agreements, instigation of unrest among Germans in the US sector, disregard of the elected municipal government, a deliberately intensified campaign of insult or personal injury to US personnel, and terrorization of their German employees.

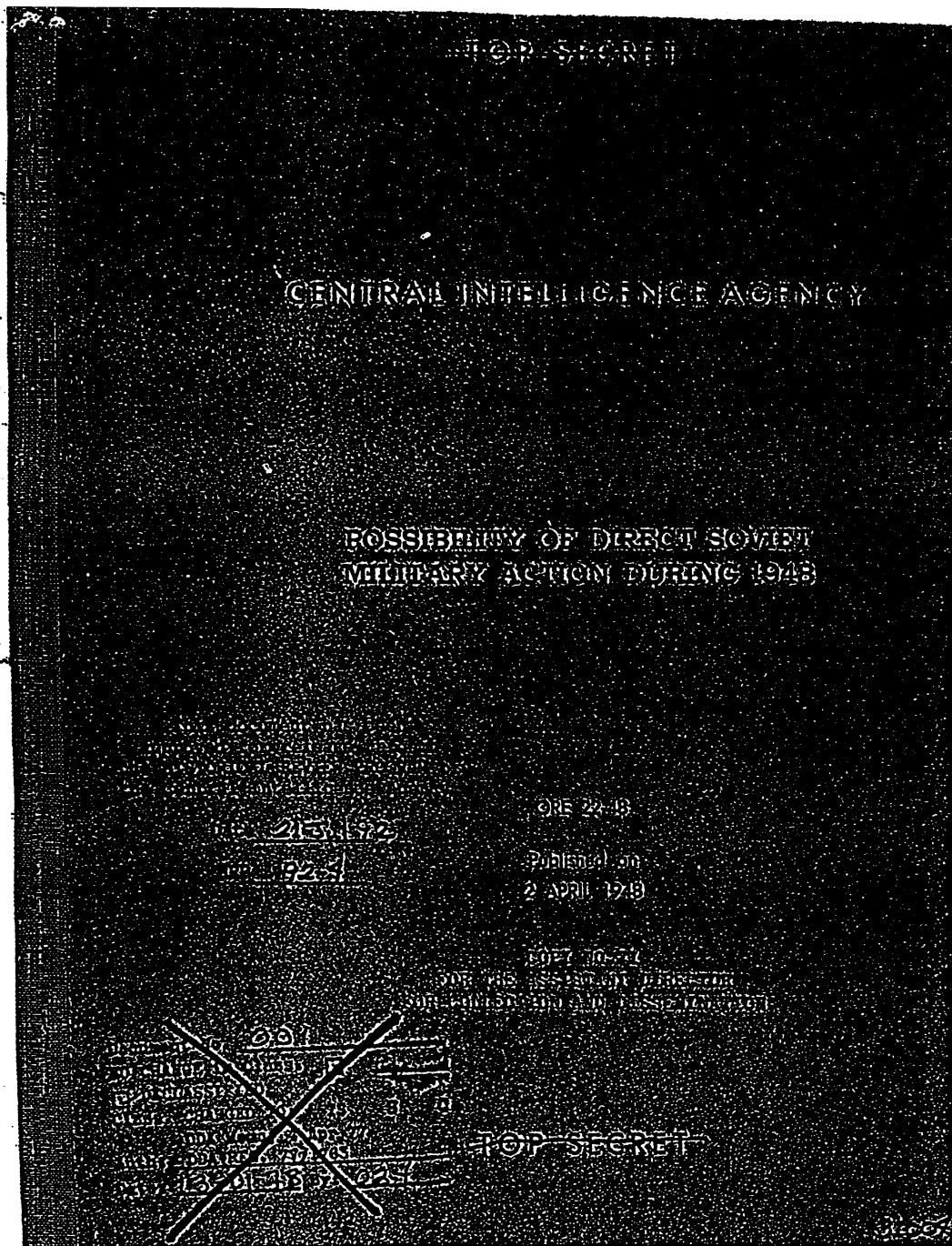
The degree of danger inherent in such a campaign will depend on the accuracy with which Soviet authorities gauge US determination to remain and the state of discipline of US officials and troops. Overly enthusiastic resort to insults or personal violence by Soviet troops or Communists could well create "incidents", - street fights, brawls, and other public disturbances which, in turn, might well lead to high-level repercussions of the gravest character. Only the greatest determination and tact on both sides could prevent a serious incident from deteriorating beyond control of the Berlin authorities. Even if Soviet estimates of limits to US patience are accurate, the situation could and probably would be aggravated by the activities of German malcontents, who for one reason or another, seek to bring about an open East-West conflict.

The Kremlin will probably defer its maximum effort to force Western Power evacuation of Berlin until it has fully calculated the risks and considered the problem in the light of Soviet strategy elsewhere. Nevertheless, in view of probable irresponsible action by local Soviet officials, the day-to-day developments in the immediate future will test the firmness, patience, and discipline of all US personnel in Berlin.

R. H. HILLENKOSTER
Rear Admiral, USN
Director of Central Intelligence

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POSSIBILITY OF DIRECT SOVIET MILITARY ACTION DURING 1948

Report by a Joint Ad Hoc Committee *

THE PROBLEM

1. We have been directed to estimate the likelihood of a Soviet resort to direct military action during 1948.

DISCUSSION

2. Our conclusions are based on considerations discussed in the Enclosure.

CONCLUSIONS

3. The preponderance of available evidence and of considerations derived from the "logic of the situation" supports the conclusion that the USSR will not resort to direct military action during 1948.

4. However, in view of the combat readiness and disposition of the Soviet armed forces and the strategic advantage which the USSR might impute to the occupation of Western Europe and the Near East, the possibility must be recognized that the USSR might resort to direct military action in 1948, particularly if the Kremlin should interpret some US move, or series of moves, as indicating an intention to attack the USSR or its satellites.

* This estimate was prepared by a joint ad hoc committee representing CIA and the intelligence agencies of the Department of State, the Army, the Navy, and the Air Force. The date of the estimate is 30 March 1948.

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ENCLOSURE

DISCUSSION

1. The Soviet military forces are estimated to have the current capability of overrunning all of Western Europe and the Near East to Cairo within a short period of time.
2. Soviet military forces along the frontiers of Western Europe and the Near East are estimated to be combat ready and generally so disposed that they could launch an immediate offensive.
3. Since the end of the war Soviet Ground Forces have been reorganized to provide a substantial increase in mobility, more effective firepower, and improved leadership on all levels. The mobilization system permits tripling of strength within 30 days. The air forces have been provided with a substantial number of jet aircraft and several regiments of long-range bombers and are now organized into fifteen air armies, as compared with seventeen at the end of the war. An extensive air defense system has been developed along the Eastern and Western frontiers, employing an increasing number of jet interceptors and an effective radar system deployed in depth. There is evidence of increased emphasis on the development and production of long-range high-speed submarines. Soviet industrial production has continued to emphasize military rather than civilian requirements.
4. By exploiting the postwar political and economic instability in Europe and the rest of the world along traditional Marxist lines, Soviet leaders have already obtained very substantial results. The exploitation of such unstable conditions is the cheapest and safest method by which Soviet leaders can obtain their objectives.
5. Certain basic factual data can be produced to help determine whether or not Soviet leaders would stand to gain or lose by exercising their current military capability of overrunning Western Europe and part of the Near East. Many factors bearing upon this problem, however, would still have to be determined on the basis of estimate and logic rather than upon factual evidence. (This problem is under detailed study.)
6. The determination at this time of whether or not Soviet leaders intend to employ their military capability rests, in the last analysis, essentially upon logic rather than upon evidence. We have no access to the thinking or decisions of the Kremlin and little contact with lower echelons of Soviet officialdom. Such evidence as is currently coming to hand, however, suggests that Soviet leaders do not presently intend to exercise their military capability of overrunning Western Europe and part of the Near East. Since the Czechoslovakian coup there have been some reports suggesting that Soviet leaders may intend shortly to resort to military action but these have been from unevaluated sources and can logically be interpreted as attempts by Soviet or anti-Soviet elements to exploit for their own purposes the fear psychosis prevalent throughout Europe as a result of the timing and rapidity of the Czech coup.
7. The intelligence agencies have generally taken the position that the USSR, in spite of its current military capabilities, would not commit itself to a course of action

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leading to war until, in the opinion of Soviet leaders, its economic potential had become adequate for a global war and until it possessed a reasonable stock of atomic bombs. It has also been assumed in some quarters that if, prior to the realization of the above objectives, the USSR were faced with impending stability in Europe, it would temporarily abandon its expansionist policy, consolidate its gains, and await the opportunity to promote and exploit new conditions of instability as they might develop in the future.

8. The positions taken in 7 above require a careful reappraisal, particularly in the light of recent US policy statements and other measures against Communist expansion.

CONSIDERATIONS WHICH MIGHT INDUCE THE SOVIET LEADERS TO RESORT TO MILITARY ACTION, IN THE ORDER OF THEIR IMPORTANCE:

9. Soviet leaders may become convinced that the US actually has intentions of military aggression within the near future. In view of the well known suspicions inherent in the minds of Soviet leaders, and the isolation of most of these leaders from the west, it is possible that the Politburo might come to this conclusion.

10. Even if Soviet leaders did not expect imminent US aggression, they might estimate that an ultimate military clash with the US was inevitable and that, in view of current Soviet capabilities for overrunning Western Europe and the Near East, it would be to the USSR's advantage to strike at these areas in 1948. Soviet leaders may estimate that their military superiority relative to the Western Powers is now at its maximum. The USSR is faced with the prospect of (1) US rearmament and presumably the rearmament by the US of the Western European Powers now joined in a military alliance and (2) increasing US production of atomic bombs and longer range aircraft which will increase US capabilities for covering strategic Soviet targets.

11. Soviet leaders might estimate that if they overran Europe and part of the Near East they would vastly improve their military security and might obtain either a military stalemate or a negotiated peace based on the following considerations:

a. That Soviet acquisition of Western Europe and the Near East might make it too difficult, or at least too costly, for the US to attempt an invasion of these areas by ground forces. The situation would differ greatly from that obtaining in World Wars I and II. In those wars the US had beachheads on the continent or in England and the Soviet Union was an ally or a neutral in the rear of Germany. In this case the US would be faced with the manpower and space of most of the Eurasian land mass.

b. That domination of the channel coast would enable them to neutralize the UK.

c. That under these circumstances:

(1) the US public might not support the continuation of the war even if the military so desired, and

(2) the US in any event would be restricted to an air war and naval blockade, which, although capable of inflicting substantial damage on the Soviet and European economies, would not be able to dislodge the USSR from its newly won position.

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d. That the denial to the Western Powers of Near Eastern oil would seriously impair their war potential.

12. The Soviet leaders might believe that, in spite of the currently impoverished condition of Western European economy and the vast difficulties inherent in the organization, control, and assimilation of this area, the quickest and easiest way to remedy the economic deficiencies of the USSR would be to seize the industrial capacity, the technical skills, and the scientific resources of Western Europe.

13. Soviet leaders might estimate that the European recovery program will succeed in stabilizing Europe for a protracted period and thereby deny them the possibility of gaining control of Western Europe through revolutionary and subversive methods.

CONSIDERATIONS WHICH MIGHT RESTRAIN SOVIET LEADERS FROM
RESORTING TO DIRECT MILITARY ACTION DURING 1948, IN THE
ORDER OF THEIR IMPORTANCE:

14. The ultimate effectiveness of the European recovery program in stabilizing the economic situation in Western Europe is still far from assured, particularly in the light of Communist capabilities for disruption in Italy and France. The opportunities for further Soviet gains through the exploitation of economic, political, and social instability, while recently diminished, are by no means exhausted.

15. Soviet leaders have been in the past habitually cautious and deliberate, and, consequently, might be reluctant voluntarily to incur the risks inherent in a major war.

16. The occupation of Europe and the Near East would impose serious problems on Soviet leaders and expose them to grave risks.

a. The maintenance of military and police forces adequate to protect the defensive position gained by the occupation of most of Western Europe and the Near East would place a serious strain on both the economic resources and manpower reserve of the Soviet Union. Assuming that war with the US continues following the conquest of Western Europe and the Near East, the hostile populations of these areas and the satellites would form an enormous subversive element that would become particularly dangerous with the approach of US forces.

b. In addition to the problem of physical security, the control and assimilation of the economies of Western Europe and the exploitation of the resources of the Near East would impose a tremendous strain upon Soviet administrative organs and personnel resources, even with the help of well organized local Communist parties in some areas.

c. Soviet personnel would be exposed to the standard of living and political ideas of Western Europe. Following World War II, the Soviet leaders have had a serious problem of reindoctrinating not only the returned soldiers but the entire Soviet population. The exigencies of war, entirely apart from the possibility of any alien contamination, appear to undermine Soviet ideology and discipline.

17. The basic economic deficiencies of the USSR in terms of requirements for global war against the US:

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a. The USSR suffered enormous physical damage in World War II and has probably not regained production levels of 1940 in all basic industries.

b. Capacity is inadequate in a number of vital fields, including transportation, communications, and in the production of steel, oil, and machine tools.

c. In order to exploit the European economic potential, the USSR would have to supply raw materials and food to an already impoverished European continent cut off from the resources of the Western Hemisphere and other parts of the world outside the Soviet Union and her sphere of influence.

18. Soviet leaders may anticipate that, in spite of the European recovery program, the Marxist prediction that the capitalist world will collapse of its own accord will be fulfilled, following the economic dislocation of World War II.

19. The US has a growing stock of atomic bombs, Soviet leaders may not regard this weapon as a decisive factor, and may have considerable confidence in the USSR's defensive capabilities against atomic attack; they probably recognize, however, that atomic warfare can inflict vast destruction and loss of life on the USSR.

20. The Soviet population is definitely war-weary and has long been promised an improvement in its standard of living. While the Russians traditionally unite to repel foreign invaders, Soviet leaders might question whether, under present circumstances, they could risk the possibility of a protracted global war.

21. The politicians in the Politburo have always been suspicious of the military. War would again bring the military to the fore and might constitute a real or imagined threat to the Party leaders.

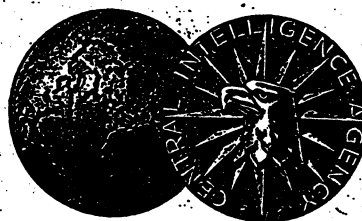
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FOR THE ASSISTANT DIRECTOR
FOR REPORTS AND ESTIMATES
CIA

21363

POSSIBILITY OF DIRECT SOVIET MILITARY ACTION DURING 1948-49



ORE 22-48 (Addendum)

This document has been published 16 September 1948
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Date 21 Jul 92

HRP 92-4

CENTRAL INTELLIGENCE AGENCY

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ORE 22-48 (Addendum)

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POSSIBILITY OF DIRECT SOVIET MILITARY ACTION DURING 1948-49

Report of Ad Hoc Committee¹ Reviewing the Conclusions on ORE 22-48

THE PROBLEM

1. We have been directed to estimate if the events of the past six months have increased or decreased the likelihood of a Soviet resort to military action during 1948-49.

BASIS FOR ESTIMATE²

2. Available intelligence bearing on the stated problem is too meager to support a conclusion that the USSR either will or will not resort to deliberate military action during 1948-49.

DISCUSSION

3. Our conclusions are based on considerations discussed in the Enclosure.

CONCLUSIONS

4. We do not believe that the events of the past six months have made deliberate Soviet military action a probability during 1948-49. They have, however, added some weight to the factors that might induce the USSR to resort to such action. It is considered, therefore, that the possibility of a resort to deliberate military action has been slightly increased.

5. However, the developments of the past six months which constitute setbacks to the Soviet international position have had the effect of adding to the pressure on the USSR. This pressure increases the possibility of the USSR resorting to diplomatic ventures which, while not constituting acts of war or even envisaging the likelihood of war, will involve an increased risk of miscalculations that could lead to war.

¹This estimate was prepared by a joint ad hoc committee representing CIA and the intelligence agencies of the Departments of State, the Army, the Navy, and the Air Force. The date of the estimate is 27 August 1948.

²The Office of Naval Intelligence concurs generally in the discussion, as contained in the Enclosure.

However, ONI feels that the "Basis for Estimate" as stated is not valid. Evidence of Soviet intentions is meager, but such intelligence as is available does not indicate a resort to deliberate military action. If the position is taken that the intelligence available cannot support conclusions one way or the other, any conclusions drawn from such a basis of estimate are of doubtful value for U. S. planning.

Therefore, ONI feels that the conclusions stated in ORE 22-48, as modified by ONI comment, are still valid. ONI concurs, however, that the events of the past six months have increased slightly the possibility of military action through miscalculation as stated in paragraph 5 of subject report, and would include under miscalculation the possibility that minor military incidents might expand into uncontrolled conflict.

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ENCLOSURE

DISCUSSION

1. Reference is made to ORE 22-48. In general, and except for such modifications as follow, it is considered that the discussion and conclusions thereof are still valid and are, particularly in respect to the economic and political factors involved, still generally applicable to the immediate future.

EVENTS WITHIN THE SOVIET ORBIT WHICH MIGHT INDUCE A USSR
RESORT TO EARLY MILITARY ACTION

2. In the USSR itself, we find no reliable evidence of military, economic, or political developments of sufficient importance to warrant any revision of our previous conclusions.

3. In the Eastern European Satellites, signs of nationalist sentiment, of mass peasant antagonism to Communist agrarian policies, and of dissension in Communist ranks, have suggested the growth of wavering loyalties and resistance to central direction from USSR. The defection of Tito and the Yugoslav Communist Party is our most striking evidence for the existence of an unstable situation. There is no doubt that this situation has caused concern in the Kremlin. While the USSR might consider the use of force to correct this situation, and general war might result, we think such a decision unlikely unless the Soviet leaders believe that the issue has reached a point where it seriously threatens their control of the Soviet orbit. At such a time the risk of war might seem preferable to the risk of losing control. There is no reliable evidence, however, that this point has been reached.

EVENTS IN WESTERN EUROPE WHICH MIGHT INDUCE A USSR RESORT
TO EARLY MILITARY ACTION

4. The following events in Western Europe may have brought about some change in Soviet strategic thinking:

a. The positive effort of the US to recreate economic and political stability through the European Recovery Program (ERP).

b. The increasing firmness of the Western Powers toward Soviet-Communist expansion, with the growth of military solidarity among Western European nations.

c. The initial steps to establish a Western German Government.

d. The failure of Communist tactics in Western Europe.

5. In ORE 22-48, we stated that "the opportunities for further Soviet gains through the exploitation of economic, political and social instability, while recently diminished, are by no means exhausted." These opportunities probably appear to Soviet analysts to be still further limited in Western Europe. While it can be argued that an increasing reduction of opportunity may be an inducement to early Soviet military action, it is

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possible that the events noted above have added to the strain on the Communist political control of Eastern Europe and therefore contributed to the weaknesses discussed in paras. 2-3 above. It is considered that the USSR, although confronted with resistance to Communist expansion in Europe, is still capable of exploiting existing political and economic instability, and is therefore more likely to continue to employ these means than to accept the risk of direct military action in the immediate future. Although Europe will remain the major objective, strategic areas elsewhere are also available for profitable exploitation.

EVENTS IN THE UNITED STATES WHICH MIGHT INDUCE A USSR RESORT TO EARLY MILITARY ACTION

6. Since Soviet leaders view, and Communist Parties are indoctrinated to regard the US as the chief bulwark of capitalism, and hence the major antagonist of the USSR, the strategy and tactics of the Kremlin are probably strongly influenced by an analysis of US capabilities and intentions.

7. Until recently, it has been supposed that Soviet planners were assuming a severe economic crisis in the US by the end of 1948, and that from this would follow a progressive weakening of US power potential. In turn, the political and economic recovery of Western Europe would be inhibited. It now appears possible that this assumption is being revised, and that Soviet planners now assume that US economy will continue productive and prosperous so long as it enjoys the export markets provided by the European Recovery Program.

8. It appears probable that Soviet leaders will be forced to admit a miscalculation of factors in US domestic politics which they earlier considered favorable. Neither the isolationists, the pacifists, nor the Wallace "Progressives" have seriously undermined popular support of a firm US diplomatic line or of adequate US defense proposals. Opinion with respect to US foreign policy has not been fundamentally split along partisan lines. Never before, in peacetime, has US opinion been so uniform on a question of foreign policy.

9. In ORE 22-48, we stated that "Soviet leaders may have become convinced that the US actually has intentions of military aggression in the near future." Recent events may have somewhat strengthened Soviet conviction in this respect. The passage of a peacetime Draft Act, the continued development of atomic weapons, the general acceptance of increased military appropriations, the establishment of US bases within range of targets in the USSR, the activities of US naval forces in the Mediterranean, and the movement to Europe of US strategic airforce units are instances in point. We think it unlikely, however, that these events have actually led Soviet leaders to the conclusion that positive US aggression must be soon expected. It is considered that they are more probably taken to mean that the ultimate conflict with the capitalist system will be resolved by force rather than by the methods of "cold war." While the danger of an early Soviet military move, made in calculated anticipation of this ultimate conflict may be slightly increased by these circumstances, we do not estimate that such a move has become a probability.

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10. Soviet analysts, examining these evidences of US intentions, might conclude that they can no longer assume the early disintegration of the capitalist world, and that US military potential, now low, will steadily improve and will ultimately be accompanied by an improvement in the military potential of Western Europe. This might, in turn, suggest looking to military action for the achievement of their aims. However, since the usefulness of non-military methods has not yet been exhausted in Europe, and since there are other regions open to significant exploitation, we do not estimate that a USSR resort to deliberate military action has become a probability.

11. Several recent events—especially the Soviet blockade of Berlin—have served to increase the tension between the USSR and the US. With this heightened tension has come a corresponding increase in the possibility of a miscalculation which might result in general conflict.

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FOR THE ASSISTANT DIRECTOR
FOR COLLECTION AND DISSEMINATION

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THE POSSIBILITY OF DIRECT SOVIET MILITARY ACTION DURING 1949



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THE POSSIBILITY OF DIRECT SOVIET MILITARY ACTION DURING 1949

Report of a Joint Ad Hoc Committee *

THE PROBLEM

1. We have been directed to estimate the likelihood of a Soviet resort to direct military action during 1949.

DISCUSSION

2. Our conclusions are based on considerations discussed in the Enclosure.

CONCLUSIONS

3. The USSR has an overwhelming preponderance of immediately available military power on the Eurasian continent and a consequent capability of resorting to direct military action at any time. The principal deterrent to such action is the superior war-making potential of the United States.

4. There is no conclusive factual evidence of Soviet preparation for direct military aggression during 1949.

5. A deliberate Soviet resort to direct military action against the West during 1949 is improbable. Moreover, the USSR is likely to exercise some care to avoid an unintended outbreak of hostilities with the United States.

6. As part of its efforts to counteract the Atlantic Pact and US military aid program, however, the USSR will seek to intensify and exploit the universal fear of a new war. In this it will pay special attention to Scandinavia, Yugoslavia, and Iran. It is unlikely, however, to resort to even localized direct military action.

7. The fact remains that international tension has increased during 1948. It will probably increase further during 1949. In these circumstances, the danger of an unintended outbreak of hostilities through miscalculation on either side must be considered to have increased.**

* This estimate was prepared by a Joint Ad Hoc Committee composed of designated representatives of the CIA and of the intelligence organizations of the Departments of State, the Army, the Navy, and the Air Force. It has been concurred in by the Directors of those agencies, except as indicated in the footnote below. The date of the estimate is 21 April 1949.

** The Director of Intelligence, Department of the Army, believes that the last sentence of paragraph 7 implies a greater possibility of war in 1949 than, in fact, exists; and that it should read "In these circumstances, the small but continuing danger of an unintended outbreak of hostilities through miscalculation on either side must be considered."

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ENCLOSURE

1. As of 30 March 1948, we estimated that the preponderance of available evidence and of considerations derived from the "logic of the situation" supported the conclusion that the USSR would not resort to direct military action during 1948. Our present task is to prepare a corresponding estimate with respect to the possibility of Soviet military action during 1949.

2. The USSR continues to enjoy an overwhelming preponderance of immediately available military power on the Eurasian continent. During the past year it has maintained, and possibly accelerated, its efforts to enhance its military capabilities through both the intensive development of basic war industries and the qualitative improvement of its military forces. There has recently been a significant increase in Soviet troop strength in Germany through the arrival of recruits from the 1928 class. It is not yet apparent whether this increase is temporary or permanent. In general, however, Soviet military preparations appear to be precautionary or long-term. There is no factual evidence of Soviet preparation for aggressive military action during 1949.

3. In the absence of conclusive factual evidence, our estimate must depend on our appreciation of the fundamental objectives and strategy of the USSR. This appreciation, set forth in ORE 60-48, ORE 41-49, and elsewhere, need not be repeated here at length. The pertinent conclusion is that the USSR would be unlikely to resort to direct military action unless convinced that a military attack by the West on the USSR was in active preparation and impossible to forestall by non-military means.

4. Our estimate of 30 March 1948 (ORE 22-48) has been borne out by the event. We may be permitted, then, to assume that the situation as it existed a year ago was not such as would cause the USSR to resort to direct military action. Consequently we limit our present consideration to developments since that date which might cause the USSR to resort to such action. These developments are:

a. An increasingly evident US determination to resist further Soviet encroachment in Europe, the Mediterranean, and the Near East, and to encourage, organize, and support local resistance in those areas. In the context of Soviet thought, this development must appear to be essentially hostile and preparatory to eventual US aggression, though not indicative of immediate attack. The USSR is particularly sensitive to the extension of US influence from Western Europe and the Mediterranean into Scandinavia on the one hand, the Balkans and Iran on the other.

b. A gradual increase in the will and ability of Western Europe to resist Soviet political aggression, and a corresponding decline in Communist political and revolutionary capabilities in that area.

c. Increasing rigidity in the partition of Germany and the development of an extremely taut situation at Berlin; in particular, the success of the airlift in defeating the blockade as a means of coercion with respect to Berlin, progress toward the establishment of Western Germany as a political and economic entity within the Western European community, and deterioration of the Soviet position in Eastern Germany and in Germany as a whole.

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d. The persistence of individualism and nationalism in Eastern Europe, despite further forcible consolidation of the Soviet position in that area (excepting Yugoslavia).

e. Tito's successful defiance of the Kremlin, a matter of greatest significance in the development of international Communism and Soviet hegemony.

f. Failure of the situation in the Near and Middle East to develop as advantageously, from the Soviet point of view, as might have been expected, and the current trend toward adjustment and stabilization in the internal conflicts within that region.

Communist successes in China and prospects in Southeast Asia are matters manifestly unlikely to cause the USSR to resort to direct military action.

5. The rulers of the USSR are presumably realistic enough to perceive that these developments do not constitute a danger of immediate attack. They will appreciate, however, that the opportunity for Soviet expansion westward by non-military means has ended for the time being, and they will be apprehensive lest a continuation of the present trend result eventually in a corresponding stabilization of the situation in the Near East, a further deterioration of the Soviet position in Eastern Europe, and an ultimate danger of US attack upon the USSR. In these circumstances the USSR must give serious consideration to the advisability of resort to preventive war while it still enjoys a preponderance of immediately available military power on the Eurasian continent.

6. The deterrents to such a decision are the realization that it would precipitate an immediate decisive conflict with the United States, a present lack of adequate defense against atomic attack and of means for a decisive military attack on the United States, respect for the present general superiority of US war industrial potential in terms of a long struggle, and reasonable hope of improving the position of the USSR in these respects with the passage of time. Philosophically prepared to take the long view in the absence of an immediate threat and confident that future crises of capitalism will produce new opportunities for Soviet aggrandizement by non-military means, the Kremlin would have reason to avoid a premature showdown while assiduously developing its capabilities for eventual defense or aggression.

7. On balance we conclude that the USSR is unlikely to resort to preventive war during 1949 at least. Its most probable course of action will be to continue its preparations for eventual war while seeking to arrest or retard the indicated adverse trend of developments (para. 4) by political and psychological counterefforts in forms currently familiar. In following this course the USSR will seek to intensify and exploit the universal fear of a new war. It will pay special attention to Scandinavia, Yugoslavia, and Iran. It is unlikely, however, to resort to even localized direct military action, except possibly with respect to Finland and Yugoslavia. In any such action taken, it will probably exercise care to avoid direct collision with the United States.

8. US and Soviet forces are in actual contact only in Germany and Austria. The fact that in the course of a year of acute tension the USSR has carefully avoided any action there calculated to precipitate armed hostilities establishes a presumption that the USSR would not resort to direct military action merely to break the deadlock at Berlin or to secure a satisfactory solution of the German problem. On the contrary, present indications are that the USSR may soon discard coercion, as repre-

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sented by the blockade of Berlin, for the time being, in order to seek a more satisfactory situation through political negotiation.

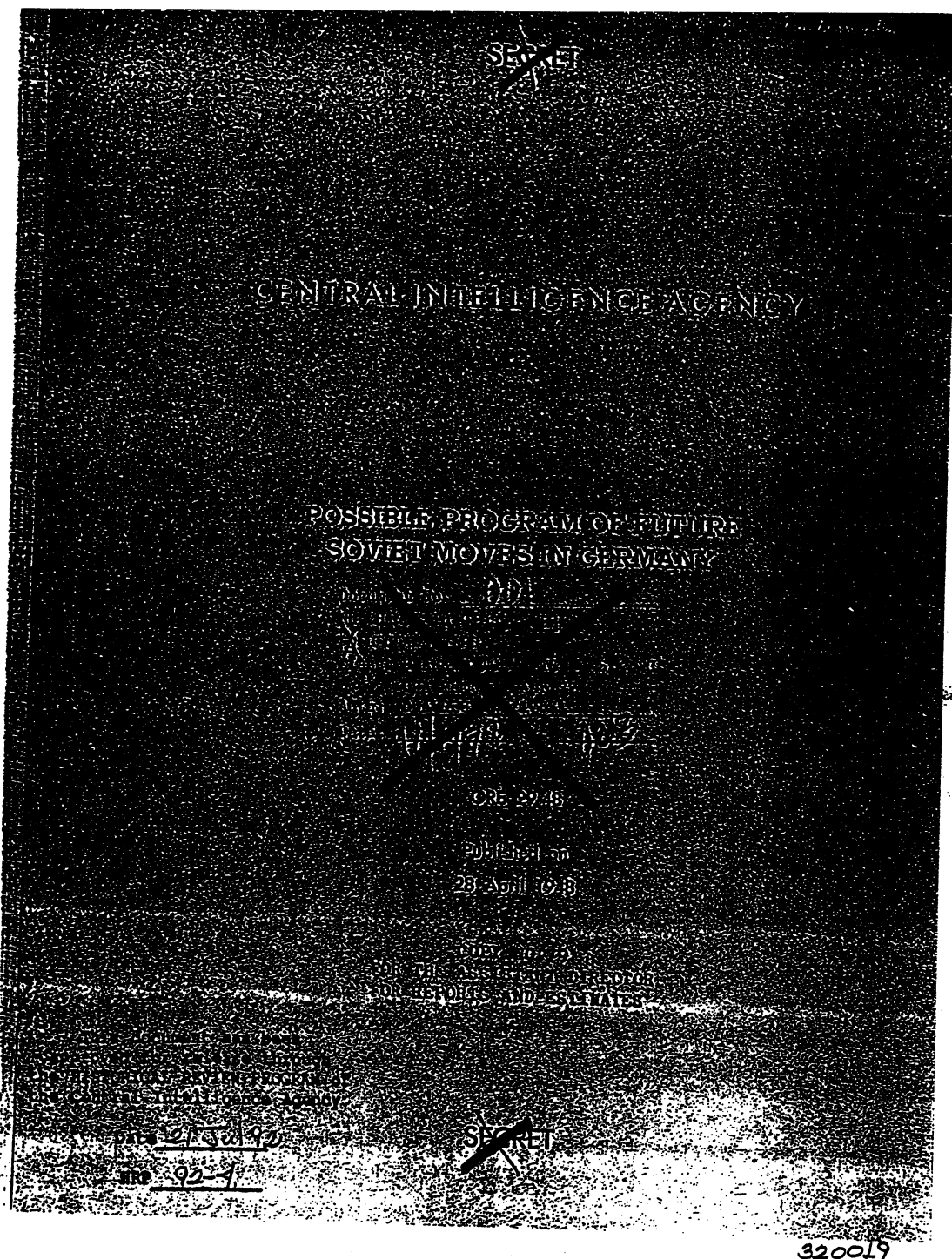
9. The vulnerability of Finland to Soviet pressure and the gravity with which the USSR views Norwegian adherence to the Atlantic Pact requires specific consideration of that case. Threatening gestures toward Finland and Scandinavia might be expected to discourage any possible Finnish hope of rescue from the West, to confirm Swedish adherence to neutrality, and to inhibit Norwegian implementation of the Pact. A Soviet military occupation of Finland, however, might have exactly the opposite effect, driving Sweden into the arms of the West and stimulating Norwegian demands for direct military support. For these reasons, increasing intimidation is to be expected, but direct military action is unlikely.

10. Similarly, threatening Soviet gestures might be more effective than direct action in inhibiting Yugoslav rapprochement with the West. Basically, however, the continuing existence of the Tito regime is intolerable from the Soviet point of view and real efforts to liquidate it must be expected. Any attempt to do so by force of arms would probably take the form of insurrection within Yugoslavia with covert Satellite support, as in the case of Greece. Direct Soviet military intervention would be unlikely unless it became the only means of preventing the military alignment of Yugoslavia with the West. Even in that case, Soviet intervention would not be intended to precipitate a general war and could do so only if the West chose to take armed counteraction.

11. Soviet sensitivity with respect to Iran requires specific consideration of that situation also. In terms of the internal factors involved, the situation in Iran is more stable than it was a year ago. There has been, however, an intensification of Soviet pressure upon Iran and there remain opportunities for indirect Soviet intervention through indigenous "liberation" movements, as with respect to Azerbaijan and the Kurdish tribes. The immediate Soviet purpose appears to be to prevent Iranian adherence to a Near Eastern pact analogous to the Atlantic Pact and acceptance of substantial US military aid. Although the USSR has been at some pains to build up a legalistic basis for direct intervention with reference to the Treaty of 1921, this appears to be part of the war of nerves. Direct Soviet military action in Iran during 1949 is considered unlikely.

12. Accepting our estimate of Soviet intentions, the fact remains that international tension has increased during 1948 and will probably increase further during 1949. Both sides are actively preparing for eventual war. In these circumstances there is increasing danger of an undesired outbreak of hostilities through miscalculation by either side. Such miscalculation could occur in underestimating the determination of the opposing side or in exaggerating its aggressive intentions. Both miscalculations would be present in a situation in which one side took a position from which it could not withdraw in the face of an unexpectedly alarmed and forceful reaction on the part of the other.

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POSSIBLE PROGRAM OF FUTURE SOVIET MOVES IN GERMANY
SUMMARY

1. The following discussion covers a program that might be resorted to by the USSR in Germany in an effort to cause the Western Powers to leave Berlin, to consolidate the Soviet hold over Eastern Germany, and to extend Soviet influence into Western Germany. Until recently this review of possible Soviet intentions was considered purely speculative and the program one that would be attempted only after the USSR had concluded that Soviet interference with the Allied efforts in Western Germany could not be effected by legal international means or through local Communist subversion. The timing of the individual stages of the program would probably be conditioned upon the timing and success of Western Power action.

2. The recent Soviet walkout from the Allied Control Council and Soviet efforts to impede transportation to and from Berlin indicate that this program may already be under way, and, that while risk of war may be involved, the plan possibly can be effected without military violence.

3. It is believed, therefore, that recent Western Power action may have caused the USSR to decide that:

a. hope no longer remains for interfering through quadripartite means with the production of Western Germany upon which the success of the European Recovery Program substantially depends;

b. the Soviet Zone must be placed under permanent control of a well organized German group, loyal to the USSR, and supported by police state measures;

c. the Peoples' Congress should be the instrument for the formation of such a provisional German Government;

d. in order to prevent Allied interference with this process of political consolidation, the Allied Control Council should be abolished, or permanently boycotted, and the Western Powers forced out of Berlin;

e. the new German "Government" should be acknowledged, at a propitious time, as the official administration for Eastern Germany, with propaganda pretensions to authority over all of Germany;

f. the Soviet Army should remain as the "protector" of the new Reich pending creation of a new German Army, by agreement with this government; and

g. in an effort to undermine the Western Power program Western Germany should be pressed, by all possible methods, to "rejoin" the Reich.

Note: The information in this report is as of 2 April 1948.

The Intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

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POSSIBLE PROGRAM OF FUTURE SOVIET MOVES IN GERMANY

1. With the conclusion of the London tripartite talks and the decision to consider Western Germany in the ERP planning, the Kremlin may have decided that little hope remains for the USSR to interfere with US/UK Zone production.

Three events: the results of the Soviet-sponsored Peoples' Congress, the abrupt departure of the Soviet delegation from the Allied Control Council (ACC) meeting of 20 March, and the subsequent Soviet efforts to impede both freight and passenger traffic between Berlin and the West indicate that at least the first steps in the outline of possible Soviet action may no longer be entirely in the realm of speculation.

2. CIA has believed and continues to believe that the USSR might encourage the Peoples' Congress to organize a future "national" administration and establish a *de facto* Government for the Eastern Zone while propagandistically claiming to speak for all the country. The Peoples' Congress partially confirmed this opinion when it convened on 17 March, advocated the early establishment of a Government to replace the ACC, and evidenced its pretensions to speak for the German people.

3. CIA has believed and continues to believe also that in preparation for the new "government", the USSR would attempt to discredit the ACC. While the abrupt termination of the Control Council meeting of 20 March has not yet been extended to a permanent Soviet withdrawal from the Council, Soviet officials have charged that the Western Powers, by unilateral action, have already made the work of the Council worthless.

4. The presence of the Western Powers in Berlin adds to the difficulty of establishing a Soviet puppet government in Eastern Germany, because of the "opposition" that operates from the sanctuary of the Western Powers' sections of the city. The USSR would consequently desire to effect a Western Power evacuation of Berlin as expeditiously as possible. The Soviet attempt to impede transport threatens to render untenable the position of a sizeable Allied group isolated over a hundred miles from the Western area, and, additionally, to cut off the industrial contribution of the US and UK sectors of Berlin from the Bizonal economic structure.

5. Should the Peoples' Congress, in fact, set up a "government" of the Soviet Zone, and lay claim to "represent" all of Germany, the Soviet Military Administration might accord it local recognition as the established German administration and give propaganda-credence to its pretensions to govern all of the Zones. The USSR and its satellites might then be expected to enter into provisional political and economic agreements directly with this "government", laying the foundation for eventual formal recognition at such time as the USSR considers it feasible to press the puppet government's claim to German sovereignty.

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6. A Soviet-sponsored provisional government which would, in all probability, control the Soviet sector of Berlin, might attempt by constant propaganda and possibly by direct interference in the public utilities affecting the Western sectors to obtain the withdrawal from Berlin of Western representation in the event that any still remained. The USSR could support this program with further concrete action similar to the transport block and declare the dissolution of the ACC, seeking to place the onus for its failure on the West.

7. If, at any time, the Soviet Union decided that the new government of Eastern Germany is sufficiently loyal or adequately controlled by the USSR to be a trusted satellite, that further Soviet interference in Western Germany through quadripartite means is hopeless, and that the Western Powers are susceptible of blame for the partition of Germany, the USSR might officially recognize the Eastern German government, and by agreement continue the "protection" of the Red Army while developing a German Army and perfecting the police system. Both the USSR and the Eastern German "state" would then launch a campaign for German unity and independence designed to win sufficient German converts in the Western Zones to reduce materially German cooperation in the West and to attempt to undermine the program of the Western Powers.

8. Although each of these successive steps involves the risk of war in the event of miscalculation of Western resistance or of unforeseen circumstances, each move on the program could be implemented without the application of military force if adroitly made as merely a retaliatory measure necessitated by unilateral Western Power action, and if pressed only at opportune moments.

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON 25, D. C.

9 June 1948

MEMORANDUM FOR THE PRESIDENT

The unification by the US, the UK, and France of their zones of Germany under a provisional government and the internationalization of the Ruhr under the control of the western powers presumably will be interpreted by the Kremlin as potential barriers to the basic Soviet objective of preventing the economic recovery of European countries outside the Soviet sphere.

As yet no conclusive evidence has come to light that the Kremlin believes the reorganization or unification of the western zones can be successfully accomplished or will materially assist the European recovery program. In view of the complexities inherent in the establishment of a provisional government under the London agreements, the USSR is likely to delay any counter-moves until the Kremlin is convinced the western German organization is becoming a threat to Soviet foreign policy. In determining its course, the USSR will take careful note of: (1) the difficulties to be overcome by the US, the UK, and France in furnishing the new regime with proper political guidance and adequate and timely economic assistance; and (2) the extent of German cooperation or non-cooperation, particularly in the Ruhr.

The Kremlin's immediate reaction to the trizonal merger, there will probably be an intensification of present Soviet activities in Germany rather than an abrupt change in either attitude or course of action. The USSR may be expected to continue its hindrance of western powers in Berlin and elsewhere in Germany by means short of military force. It will further consolidate Communist control of the eastern zone in order to obtain a "loyal" and "democratic" area, which can eventually be declared a "free German" state or used to Sovietize a unified Germany. The USSR may be expected also to step up its propaganda efforts to discredit the western powers in German eyes as the disrupters and despoilers of Germany and to depict the Soviet Union as the champion of a unified Germany.

If the trizonal merger appears successful and promises to rehabilitate western Germany as well as contribute to the European recovery program, the Kremlin will probably be impelled to alter its present tactic. Exclusive of a resort to military force, the Kremlin can logically pursue one of two courses: (1) ostensibly abandon its recalcitrant attitude and make an attractive offer to form a unified German Government under quadripartite control (in order to slow the progress of German recovery); or (2) retaliate by establishing an eastern German state.

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The Kremlin will probably resort to the course outlined in (1) and make a vigorous effort to persuade the western powers that the USSR is sincere in its promises of cooperation. The Soviet Union is likely to make a serious endeavor to join its zone to the western zones under a single government, unless western terms for Soviet participation in a new quadripartite structure are prohibitive. If the Kremlin concludes that it cannot make the concessions demanded by the western powers, the USSR will likely adopt course (2) and announce the establishment of a new state in eastern Germany with propaganda pretensions of being the only legally-constituted German Republic and the representative government of all Germans.

R. H. Hillenkoetter
R. H. HILLENKOETTER

Rear Admiral, USN
Director of Central Intelligence

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ESTIMATE OF SOVIET REACTION IN GERMANY TO UNIFICATION
OF THE THREE WESTERN ZONES

APPENDICES A & B

A - Discussion of possible Soviet course (1)

Any suggestion by the USSR that it join the western powers in the quadripartite control of a unified German government would be made with the full realization on both sides that past Soviet obduracy, chiefly in the matter of economic unification, had exhausted the patience of the US, the UK, and France, and had led directly to the present tripartite action. The USSR will realize, too, that the western powers would be extremely reluctant to abandon their program for the western zones either to please the Soviet Union or to take part again in fruitless discussions in an impotent Allied Control Council or elsewhere. It is probable, therefore, that any Soviet overture would be carefully worded to give the impression that the USSR had abandoned its previous intransigent attitude, and sincerely believed its own propaganda for German unity. The overture would seriously urge the western powers to consider an overall political and economic unification of Germany under a German government with a minimum of overt occupation power control.

Because the primary Soviet purpose in making such a suggestion would be to delay German and hence western European recovery by discussions and other typical Soviet delaying tactics, the USSR would be prepared to offer important tactical concessions in the form of the German administration to be established. Under almost any circumstances, the USSR could be sure that the merger of the Soviet Zone in any form of a unified Germany would assure the existence of a Communist-controlled bloc which could be relied upon to delay and block economic recovery throughout the country. Under these conditions, the USSR might also offer, largely for German domestic consumption, to reduce or drop some Soviet reparations claims, or even possibly to consider substantial reductions in the occupation forces after a "democratic" state had been firmly established.

If the western powers should permit the USSR to join in a quadripartite zonal merger without first having absolute and therefore practically impossible clarification of Soviet intentions, the USSR, either directly or through its German representatives, would work actively to defeat western plans

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by such actions as: (1) demanding a Soviet voice in the control of the Ruhr; (2) proposing that all political organizations not now permitted in various areas be recognized on a quadripartite basis; (3) urging similar recognition of the Communist-dominated Free German Trade Union League in order to facilitate future Soviet control of a unified labor movement, particularly in the Ruhr; and (4) supporting rightist as well as leftist political elements in the west in order to add strength to the Soviet-controlled bloc.

B - Discussion of possible Soviet course (2)

The present high degree of Soviet control over the eastern zone of Germany would greatly facilitate the conversion of that area into a Satellite state, if the Kremlin decides to retaliate by setting up a provisional government in eastern Germany. No serious opposition could arise within the zone to the appointment, under the pretense of popular elections, of Soviet candidates to the leading positions in the new state. The creation of such a state, however, would give the USSR no immediate benefits beyond those now received from the same area. Long-range benefits would be dependent upon the acceptance by opportunistic Germans of transparent Soviet propaganda designed to depict the Soviet-sponsored state as a restoration of the Reich. The USSR would attempt to undermine the tripartite German state by urging the western Germans to rejoin the Reich. Except for the questionable value of such propaganda, the USSR would have at its disposal only strikes and sabotage with which to interfere with the economic and political recovery of western Germany.

A Satellite state, in short, would promise the USSR neither additional economic nor political benefits of any magnitude, and would fall short of the immediate objective of blocking the western power program. Such a state would guarantee continued zonal autonomy and allow the western powers to continue their independent course without serious Soviet interference.

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EFFECT OF SOVIET RESTRICTIONS ON THE US POSITION IN BERLIN

SUMMARY

Contrary to many published reports, the chief detrimental effect on the US of the Soviet restrictive measures imposed in Berlin, since the walkout of the USSR from the Allied Control Council, has not been interference with transportation and supply but curtailment of certain US activities having to do for the most part with intelligence, propaganda, and operations of the quadripartite Kommandatura.

Concurrently with attempted inspection of US military rail traffic, the Soviets both tightened their "security" measures and manifested greater intransigence in all city affairs. As a result: (a) the general usefulness of Berlin as center of an intelligence network has been impaired, while in particular, access to Soviet deserters and anti-Communist Germans has been made more difficult; (b) since friendly Germans cannot move freely to and from the Soviet Zone or within the city, the US cannot as before, support anti-Communism within the Soviet Zone; (c) US propaganda cannot be freely disseminated except by radio; (d) commodities manufactured in Berlin cannot be shipped to the Western zones; and (e) the ACC and the Kommandatura have, at least temporarily, lost their usefulness in keeping up German hope of unity, revealing coming Soviet moves, and easing US-Soviet tension below the governmental level.

Note: The information in this report is as of 1 June 1948.

The intelligence organizations of the Departments of State, Army, and the Navy have concurred in this report; the Air Intelligence Division, Air Intelligence Directorate, Department of the Air Force, concurs with those portions which pertain to air intelligence.

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EFFECT OF SOVIET RESTRICTIONS ON THE US POSITION IN BERLIN

Imperative as it is for the US to remain in Berlin, its mere physical presence there does not insure continuance of all the strategic benefits that might be derived therefrom, and this strategic position has, in fact, been undermined already by unpublicized Soviet action, taken for the most part in general security and local political matters. The hindrances imposed by the USSR during the past several weeks on transportation to and from Berlin have not seriously interfered with the logistic position of the US but rather with its strategic position.

Continued US occupation of Berlin requires supply from the west of food and such other necessities as coal for both the US personnel and the German population of the US sector of the city. Incoming barge transport, carrying the bulk of food for the western sectors of the city, reportedly is unchanged and continues adequate, notwithstanding stoppages of short duration on British transport through the Soviet Zone. Inbound military and civilian rail freight, hauling the necessary coal and other supplies, continues to move as before, except that the civilian freight routes have been somewhat restricted.

The present transport situation is the result of Soviet efforts to extend the right of civilian rail traffic inspection, which the USSR has always exercised, to Western Power military traffic. Civilian passenger traffic apparently continues unchanged, but military passenger traffic does not function because of Western Power refusal to accede to Soviet demands for the right of personal inspection. Incoming road transport continues normal except for slight difficulties in routing; as yet, the USSR has not attempted seriously to restrict Western Power air transportation. The transportation situation, as outlined above, indicates that the necessities for the German population and for the US personnel in Berlin are still being supplied.

The US strategic position in Berlin, as contrasted with its logistic position, has been impaired both by the Soviet transportation restrictions and, more particularly, by other Soviet measures taken concurrently with the imposition of logistic hindrances. These comparatively unpublicized measures, which soon followed the walkout of the USSR from the Allied Control Council, have involved: general tightening of Soviet "security" measures throughout the Soviet Zone; greatly increased police controls in and around Berlin; and Soviet efforts to block the operations of both the Allied Kommandatura and the non-Communist city government. As a result the following material benefits to the US arising from the presence of US officials and troops in Berlin have been reduced or eliminated:

- (1) The value of Berlin as a center of an intelligence net covering the city itself, the Soviet Zone of Germany, the eastern satellites, and the USSR has been threatened.
- (2) The value of Berlin as a sanctuary and transfer point for anti-Communist refugees or Soviet Army deserters has been reduced, in that: (a) heightened Soviet security precautions make access to the western sectors of Berlin from the adjacent

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Soviet Zone increasingly difficult; (b) Soviet travel restrictions on westbound passenger rail traffic have curtailed the means of evacuation of refugees and deserters, who must now be limited to relatively high-level personnel warranting air transport.

(3) Except for the capacity of the Berlin radio of the US sector, the value of Berlin as point for the dissemination of Western propaganda through the Soviet Zone has been, and despite new Soviet assurances is expected to be, curtailed by Soviet interference with the dissemination of Western publications and impediments to the issuance of any German pro-Western material in the Soviet Zone.

(4) The security and transport regulations have limited the value of Berlin as a base from which the US can support anti-Communism in the Soviet Zone. Western Zone Germans can no longer easily enter or leave the Soviet Zone, while tightened police controls have reduced the capabilities and the freedom of movement of anti-Communist elements already within the Zone.

(5) The Soviet-imposed demands for inspection of all westbound freight have prevented the shipment of Berlin manufactures that contribute to the finished production of the Western Zones and eliminated almost all commerce between Berlin and the west.

(6) Although the Allied Control Council remains in the city to embarrass the USSR as a symbol of quadripartite agreement in Germany, its functional impotence and failure to meet since the USSR abruptly terminated the 20 March session has: (a) diminished remaining German hope of implementing the Potsdam method of unifying Germany politically and economically; (b) eliminated a sounding board for the revelation of future Soviet moves; and (c) eliminated a useful safety valve for easing US-USSR tension below the governmental level.

The USSR still has at its disposal further means for harassing the US and making the latter's position in Berlin more difficult. These means include: imposition of unilateral traffic regulations on inbound food and freight shipments, attempted enforcement of unilateral regulations on the flight of Western Power aircraft over the Soviet Zone, complete repudiation of quadripartite Kommandatura jurisdiction over the Soviet sector of the city and the incorporation of that sector into the Soviet Zone, and, finally, increased efforts to create unrest among the civil population of the Western sectors of the city.

Strategic losses such as the damage to US propaganda machinery, to intelligence operations and to the use of the US sector as a sanctuary for refugees from the Soviet system, cannot be completely retrieved except by the removal of all the Soviet-imposed restrictions and impediments referred to above. Though the US could recapture a degree of the strategic initiative by intensified clandestine intelligence operations, such action could do nothing to remedy the unfortunate situation in which recent Soviet hindrances have placed the anti-Communist Berlin city government or to relieve the tension brought by increased Soviet intransigence in the quadripartite Kommandatura.

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WASHINGTON 25, D. C.

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28 June 1948

MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subject: Situation in Berlin

The following are intelligence reports just received on the situation in Berlin, dated 28 June 1948. The official position of the German police of the French sector has shown us a letter stating that all plans for a general strike in Western sectors should be made immediately and that plans for a transport phase of strike should be ready to be put into effect by 9 a.m., 28 June 1948.

Soviet inspired Communist terrorism is expected. The German police are believed capable of coping with such a situation unless Soviet troops take part. The SED leaders and functionaries of greater Berlin have held a meeting and discussed the formation of action committees in factories and local districts to be activated by pre-arranged signals. This step was taken on the return of the delegates from the Warsaw conference. The official position of the Communist Party of Germany is that the currency change produces a revolutionary change in Berlin which must be used to bring a Communist victory which is considered synonymous with the withdrawal of the Western Allies. Since the Soviets no longer consider the Western powers as Allies, the German Communists are not to be limited in means they employ against the West.

The German Communist Party is to prepare strikes and demonstrations which will be carried out in the Western sectors in the next few days to give the impression that the presence of the Western Allies in Berlin is made impossible by the will of the population rather than by Soviet compulsion. The German Communist Party is to take steps to show that the Russians are to be acquitted of any blame for food shortages, power failures, etc., in Berlin. All loyal German Communists are called upon for extraordinary efforts, if required, within the next few days with the reward being held out of the possibility of winning all Germany for the Communist cause.

The German police radio in the American sector has been systematically jammed by an unknown source for the last two days. This American-controlled police radio, essential in case of disorders and

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rioting, is now practically ineffective. The U. S. Air Force has just supplied a transmitter strong enough to broadcast over this interference, and radio reception is improved although by no means satisfactory. The jamming station could not be located as it is believed it is a mobile station and operated from various points.

A report from a source [REDACTED] indicates that a German government will be announced in the near future, stating that this will take place not later than 3 July 1948. The officials of this government are reported to be:

Prime Minister
Foreign Minister
Interior
Trade

Otto Pieck
Otto Grotewohl
Eris Reschke
Fritz Seppner.

Dissemination of the above items has already been made to the State Department and the Armed Services.

R. H. MILLIKEN
Rear Admiral, USN
Director of Central Intelligence

This document has been approved for release through the HISTORICAL REVIEW PROGRAM of the Central Intelligence Agency.

~~SECRET~~
CENTRAL INTELLIGENCE AGENCY
2430 R STREET NW.
WASHINGTON 25, D. C.

30 June 1948

MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subject: Current Situation in Berlin

Information has been received that a conference was held in Karlshorst on 28 June 1948 between Russian officials, headed by Marshal Sokolovsky, and German members of the German Industrial Committee. Sokolovsky opened the conference by asking the German industrialists what influence on the Eastern Zone of Germany would exist because of the blockades from the Western Zone.

A German representative stated that being cut off from the West meant a complete stoppage of production in sugar refineries for lack of 50,000 meters of steel piping on order in the Western Zones; it almost meant a complete closing down of canneries since the entire raw material was received from the West; and a certain discontinuance of the Baltic shipping fleet within a short time because of lack of machinery parts. Sokolovsky evidenced a great consternation at this statement, replying that the Russians had been led to believe the East could be independent of the West. The German member then stated that the heavy industries, particularly the steel mills in Hennigsdorf, could not produce without the West and that other heavy industries in the Eastern Zone would be equally affected. The Russians appeared greatly shocked, and a Russian General, in charge of trade and supply, said, "We had no idea of this situation; Russia is suffering from heavy droughts and is counting on German food supplies this year. Food supplies must be maintained, come what may. If we had known this, we would not have gone so far."

During the meeting Sokolovsky stated that three possibilities were available:

- a. Start a war.
- b. Lift travel restrictions on Berlin.
- c. Leave entire Berlin to West, giving them the rail line.

After the meeting Tulamov, who was also present, said that war was impossible due to bad harvest prospects and that lifting travel restrictions would make the Russians lose face. The third possibility was that the West would have to feed all of Berlin and would have more on their hands than they bargained for. He stated that 2,000 tons of food would

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be needed daily to sustain the Germans in the Western sectors, but he thought the Western Powers could feed their zones by extensive import of concentrated foods.

(The above information has been disseminated to Mr. Murphy and General Walsh in Berlin and to the Armed Services and State Department in Washington. Its evaluation is: the source is very reliable and the content is possibly true.)

R. H. Hillenkottler
R. H. HILLENKOTTLER
Rear Admiral, USN
Director of Central Intelligence

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Security Council

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30 June 1948

MEMORANDUM FOR THE PRESIDENT

Subject: Russian Directive Indicating Soviets intend to Incorporate Berlin into the Soviet Zone

On 23 June 1948, the justice administration of the Soviet Zone issued a directive on the judicial measures to be taken in connection with currency reform. Addressed to the Ministry of Justice, Soviet Zone Landers, the Landgericht, and the Kammergericht in Berlin (both located in the Western Sectors), the directive treats Berlin as a part of the Soviet Zone. A copy of the directive is in the possession of the Central Intelligence Agency.

RECEIVED
The above directive was discussed on 26 June 1948 among the justice and police officials of the Soviet Zone. When the Chief of Police of the legal section stated that the directive cannot be enforced because of the geographical location of the courts in Western Berlin, former President Wagner of the Interior Administration stated that this was of no consequence since detailed instructions for enforcement will not be ready for three weeks, by which time the Western Allies will have evacuated Berlin. This view was acceded by President Malinbaum of the justice administration.

Field Comment: The above information is an indication that the Soviets mean business in the present crisis. Having gone this far, it is difficult to see how they could back down without a maximum loss of face even in their own camp.

(The above information has been disseminated to Mr. Murphy in Berlin and to the Armed Services and State Department in Washington.)

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R. H. MILLENKOTTER
Rear Admiral, USN
Director of Central Intelligence

APPROVED FOR RELEASE

cc - Admiral Souers, NSC

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 CENTRAL INTELLIGENCE AGENCY REPORT NO. [REDACTED]
3/16
INFORMATION REPORT
 COUNTRY Germany (Russian Zone)
 SUBJECT Russian Unilateral Dismissal and Appointment of Berlin Police Officials
 PLACE REQUIRED Germany, Berlin
 DATE OF INFO 14 July 1948
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THIS IS UNEVALUATED INFORMATION FOR THE RESEARCH USE OF TRAINED INTELLIGENCE ANALYSTS

JRCE A well-informed, reliable source.

Lt. Colonel Kotyshev, Internal Affairs Section, SVA, instructed Police President Markgraf on 14 July 1948 to dismiss immediately, because of their provocative attitude toward the SVA, the Chief of the Schutzpolizei Hans Kanig (now on leave), Dahler, Chief of the Riot Squads (now on leave), and Hagendorf, Chief of the Präsidialabteilung. Kotyshev also ordered the appointments of Wagner and Eckenmayer to succeed Kanig and Hagendorf, respectively.

(Field Comment: The Soviet move involves the dismissal and appointment of "city-wide officials" subject only to Quadripartite action. This is considered the worst provocation to date on the city level, especially in view of Colonel Kalinin's statement when the Kommandatura was dissolved that the Soviets will "continue to respect Quadripartite agreements".)

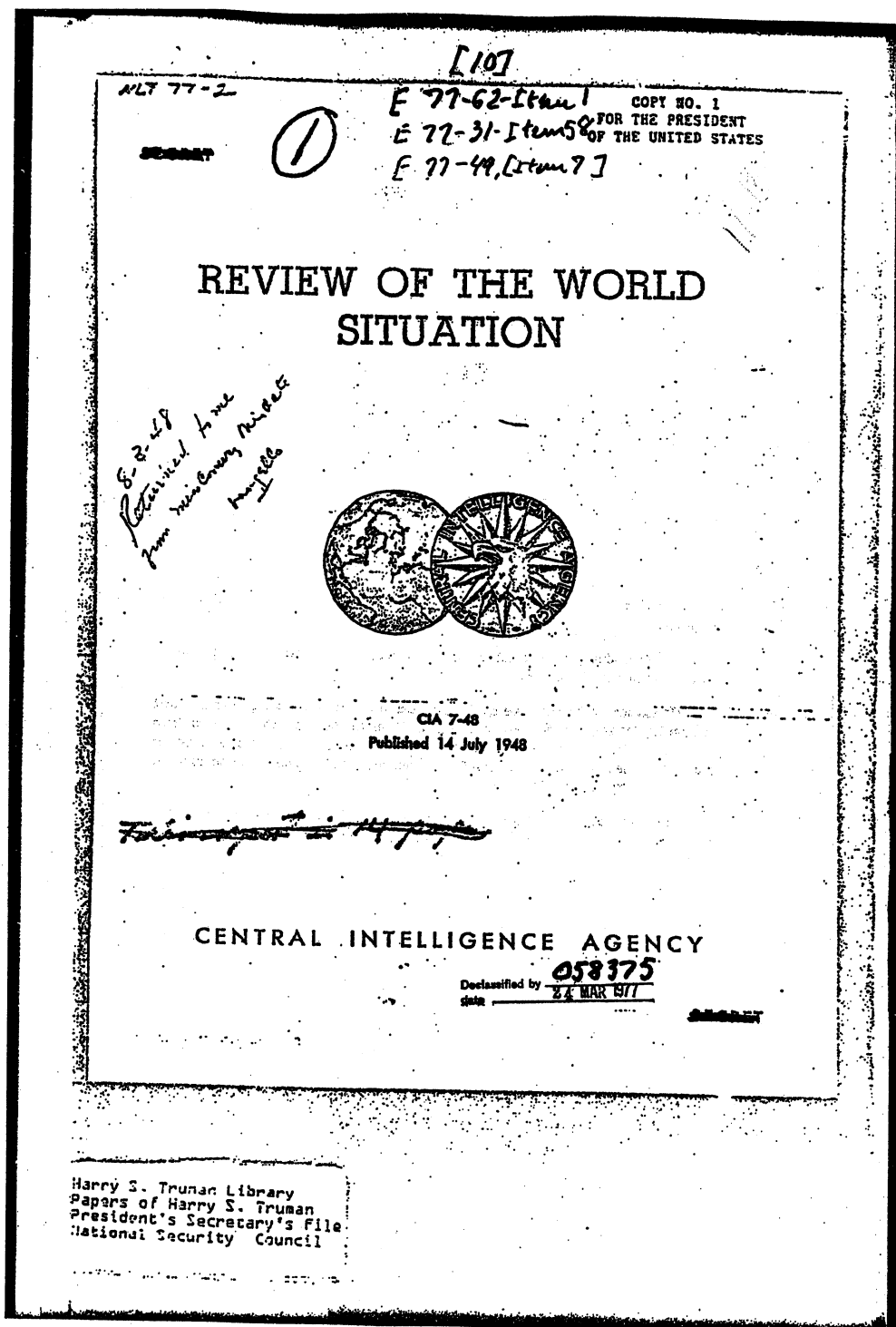
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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY
OF THE UNITED STATES

SUMMARY

1. The primary purpose of the Soviet blockade of Berlin is to compel the Western Powers to reopen quadripartite negotiation with respect to Germany as a whole (infra, para. 1).

2. The breach between Tito and the Kremlin brings into the open the latent conflict between international Communist discipline and national interest which has been inherent in the situation since the expansion of Communist control beyond the historical frontiers of Russia and puts in question the ability of Russian-controlled Communism to retain power indefinitely beyond those frontiers. For the short term, at least, it seems probable that Tito will succeed in making good his assertion of Yugoslav independence (infra, paras. 2 and 3).

3. Tito's contumacy will probably cause a widespread and disruptive purge of Communist ranks which will complete the elimination of Communism as a formidable political movement in Western Europe, but perfect the remnant of the faithful as a disciplined fifth column (infra, para. 3).

4. The favorable general trend toward world economic recovery continued during the second quarter (Appendix).

5. Unless the Arabs can force political concessions from the Jews during the next two months, logistical difficulties may compel them to withdraw their armies from Palestine. Under continuing guerrilla attack, however, and in political and economic isolation from neighboring states, Israel would remain dependent on the support of an outside Power or Powers (infra, para. 11).

6. Prevailing conditions throughout the Far East continue to be adverse to US strategic interests and favorable to the extension of Soviet influence (infra, paras. 13-17).

7. Latin America is approaching a political and institutional crisis which may seriously affect its ability to afford valuable cooperation to the United States (infra, para. 18).

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

GENERAL

1. SOVIET PURPOSES IN GERMANY.

The Soviet blockade of Berlin is consistent with the desire to negotiate indicated in CIA 6-48. The Soviet purpose in any negotiations, however, would be offensive rather than defensive or conciliatory.

The blockade of Berlin is designed, in the first instance, to compel the Western Powers to reopen quadripartite negotiations with respect to Germany as a whole and to render them acquiescent to Soviet terms. At no more cost than the relaxation of this pressure for the time being and perhaps minor concessions on such matters as reparations, the USSR would hope to gain an effective voice in the control of Western Germany and especially of the Ruhr. By this means it could prevent the consolidation of a West German state aligned with the West and could gain an opportunity to bring about an eventual eastward orientation of Germany as a whole. The corresponding broader consequences would be to reduce the contribution of the Ruhr to the recovery of Western Europe, to gain a share in Ruhr production for the USSR and its satellites, and to prevent or retard the consolidation of a Western European community antagonistic toward the USSR.

If the Western Powers refuse to negotiate, however, or to accept in negotiation the USSR's terms, the current blockade of Berlin will have so weakened the Western position there as to hasten the day when the USSR would expect it to become untenable. Denied quadripartite agreement on Germany as a whole, in all probability the USSR would intensify its presently coercive blockade into a decisive effort, by all means short of armed force, to compel the Western Powers to withdraw from Berlin, would establish there a "national" German government, and would employ every means of political warfare and subversion to prevent the consolidation of a West German state and to bring about an eventual unification of Germany by accession of the West to the Soviet-controlled East.

2. THE BREACH BETWEEN TITO AND THE KREMLIN.

The breach between Tito and the Kremlin is the most significant development in international Communism in twenty years. It brings into the open the latent conflict between international Communist discipline and national sentiment which has been inherent in the situation since the expansion of Communist control beyond the historical frontiers of Russia and puts in question the ability of Russian-controlled Communism to retain power indefinitely beyond those frontiers.

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The essential complaint against Tito is that he pursued his own political interest and the national interest of Yugoslavia rather than the objectives of the Kremlin and that he remained defiantly impenitent when called upon to confess his error and mend his ways. The principal issue was probably his persistent advocacy of a Balkan federation, which could cloak Yugoslav imperialism and could result in the creation of a power capable of asserting its independence of the USSR in the international balance of power. An incidental aspect of this tendency was his disposition to exploit the situation in Greece to Yugoslav advantage and Communist disadvantage.

The Kremlin's decision to call Tito to account appears to have been taken in February, when he failed to practice self-criticism and abasement with respect to Balkan federation, as did Dimitrov of Bulgaria. Tito's formal indictment occurred in March and was generally known throughout the higher echelons of the Communist Party in Eastern Europe. The conflict became public, however, only on Tito's refusal to leave the safety of his own country to attend the June meeting of the Cominform.

The open scandal has been most untimely from the point of view of Molotov and his diplomatic interests, suggesting a conflict of purposes, if not of personalities, between him and Zhdanov, the guardian of ideological purity and party discipline. The Kremlin may have been so ill informed as to suppose that Tito would not dare to refuse the awful summons to Canossa. In any case, it was compelled to invoke open sanctions against his contumacy, lest that demoralize the remaining satellites in Eastern Europe. The event is evidence that excommunication and interdict were the only sanctions available to the Kremlin in this case.

The Yugoslav Communist Party is unique (except for the Chinese) in that it is of local development and self-contained. It is rooted in the Yugoslav Partisan movement, which was genuinely patriotic in its appeal, for all its Communist leadership. Such outside support as the Partisans had came not from the USSR, but from the West. The Partisans could readily be led again to defend Yugoslavia from foreign domination.

The Kremlin cannot brook Tito's recalcitrance, but neither can it immediately overcome him, in view of the loyalty of the Yugoslav Party, Police, and Army to him personally. Even if Tito were to be assassinated, that act would make him a martyr to Yugoslav independence and would stimulate rather than subdue Yugoslav resistance to Soviet domination. Economic sanctions would have only indirect effect, and might force Yugoslavia into closer economic and political relations with the West. Armed invasion would provoke a frenzy of patriotic resistance, would afford greater opportunities to the Western Powers, and would involve unacceptable risk of a general war. Only by long term penetration and subversion can the Kremlin get at Tito, yet each passing day of his impunity damages its prestige in Eastern Europe.

Tito, for his part, cannot immediately turn to the West without rendering his position vulnerable. He must demonstrate his loyalty to Communism and protest his innocence of heresy. Inexorably, however, the logic of his position will force him into association with the West as a factor in the balance of power, however Com-

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munistic his domestic policy. The greater the pressure exerted on him by the Kremlin, the more rapid this transition will be.

3. INTERNATIONAL COMMUNIST DISCIPLINE.

The Kremlin is quite capable of exploiting the sentiment of nationalism for its own purposes, as currently in Southeast Asia (para. 16). In both theory and practice, however, it cannot permit either individualism or nationalism to impair the absolute obedience of local Party leaders to its own dictates. A conflict between such rigid discipline and local judgment is implicit in the character of international Communism. Apart from any latent patriotism, it may appear in a national leader's presumption of better understanding of the national temperament or of the local situation. This disciplinary problem is currently rendered the more acute by the fact Communists now man the governments of half a dozen supposedly sovereign national states.

Within the Soviet Union the conflicting requirements of particular nationalisms and monolithic Soviet unity are reconciled by loose federation in the governmental structure and tight control through the parallel party organization. A similar device would serve to reconcile the nominal independence of Poland, for example, with the absolute domination of the Kremlin, so that Poland's "independence" would be no greater than that of the Ukraine, but the effectiveness of the system would depend upon absolute party discipline.

The Tito affair has exposed the Cominform as no mere information bureau, but, as supposed, the successor of the Comintern as the device for Kremlin control of foreign Communist parties and the governments of "independent" states where Communists are in power. Also made starkly plain is the Kremlin's subordination of every national interest and consideration to its own absolute power. This revelation should preclude the further political association of any patriot with international Communism and so reduce the Communist parties of Europe to those militants who have irrevocably transferred their entire allegiance to the Kremlin.

This tendency had been apparent in the French Communist Party since the establishment of the Cominform, but the process is as yet by no means completed. The Italian Communists avoided the forfeiture of national character and as recently as April could command 8,000,000 votes, but in June they too adopted the strict Cominform line, no doubt prepared to accept the logical consequences.

In Eastern Europe considerable latent nationalism persists even among Communists, especially in Poland and Czechoslovakia. Ironically, the vehemence of the Albanian and Bulgarian denunciations of Tito is attributable as much to individualistic and nationalistic fear of Tito's ambition and Yugoslav imperialism as to Communist discipline.

Tito's example could prove infectious in the non-Russian Communist world and cause a schism comparable only to that between Trotsky and Stalin. In any event, the apprehensions of the Cominform will probably produce a widespread and disruptive party purge. This process will probably complete the elimination of Communism as a

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formidable political movement in Western Europe, but at the same time it will render the faithful remnant more effective as a disciplined fifth column.

The Chinese Communist Party is guilty of most counts in the indictment of Tito, but nothing is likely to be said about that.

4. THE ECONOMIC TREND.

The favorable general trend toward world economic recovery continued during the second quarter (see Appendix, p. 10).

PARTICULAR SITUATIONS IN EUROPE

5. THE UNITED KINGDOM.

The most serious postwar crisis has found the British Government resolute in policy and strongly supported by the British people. Fears that war weariness and economic weakness might induce a mood of appeasement in the face of Soviet menace have been disproved.

The United Kingdom's international balance-of-payments position remains critical, however, despite a marked increase in industrial production, a record volume of exports, a restriction of imports to approximately four-fifths of the prewar level, and the prospect of substantial ECA assistance. It seems clear that, even with ECA support, the drain on dollar and gold reserves will continue through 1948.

6. FRANCE.

The National Assembly, in approving the Six-Power Agreement on Germany by a narrow margin, "admonished" the Government to seek more extensive international control of the Ruhr, to avoid the reconstitution of an authoritarian and centralized Reich, and to endeavor to obtain quadripartite agreement with respect to Germany. Although the Government's adherence to the existing Agreement is unqualified, it will presumably heed the Assembly's "admonitions" in its attitude during the further development of the situation in Germany.

The Assembly's action on the Six-Power Agreement coincided with an outbreak of violence as security forces broke up a sit-down strike in the rubber plants of Clermont-Ferrand. The strike, in support of wage demands, was part of a Communist plan to keep France in a ferment of local economic strikes while avoiding another general test of strength with the Government until Communist control of labor had been re-established. Local militants, however, seized the occasion to instigate disorder at Clermont-Ferrand and to call sympathy strikes throughout France, and the Party was compelled to support them. This attempt to exploit the situation was defeated, however, by the aloofness of non-Communist labor and the decisive action of the Government's security forces: within a few days the strike wave had subsided. The Communists, reverting to their previous strategy, are unlikely again to challenge the Government until the "social climate" improves.

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These labor troubles, however, point up the wage-price dilemma confronting the Schuman Government. The non-Communist unions, at the risk of losing members to the CGT, have withheld wage demands in order to support the Government's effort to reduce prices. Retail prices, however, are rising again and are already back at the high reached in February. The non-Communist unions are thus compelled to demand a return to price control and to consider demands for wage increases. The Government's position is rendered the more difficult by the fact that DeGaulle, in an effort to win labor support, has now seized upon this issue and instructed his labor cells to take the lead in wage demands. Some upward adjustment of wages would appear to be politically imperative, but satisfaction of the workers' demands would launch another round of inflation equally dangerous to the Schuman Government.

7. ITALY.

Like their French comrades, the Italian Communists are seeking to reassert their leadership of labor by exploiting legitimate economic grievances, with particular reference to inadequate pay and increasing unemployment. Their latest device, a series of token general strikes in successive industries, has met with success because of the inability of non-Communist labor leaders to oppose them on these issues.

The Socialist Party Congress rejected Nenni's leadership, the Popular Front as an electoral device, and resistance to the European recovery program, but these concessions to rank-and-file sentiment were offset by lack of progress toward reunion with the moderate Socialists and a resolution in favor of continued collaboration with the Communists. Although the situation within the Party is fluid, developments probably depending on factional opportunism, continued indirect Communist control of the Party apparatus may be suspected.

Meanwhile the Government has taken no constructive action to allay labor discontent, and appears unlikely to do so before the impending adjournment of Parliament. Its inactivity with respect to promised reforms has caused concern among its Socialist and Republican members. The policy of the Government may be to rely on ECA allocations to ameliorate economic conditions in Italy, basic reforms being opposed by powerful industrial and ecclesiastical influences. Such a policy would play into the hand of the Communists.

8. GERMANY.

The Western German attitude toward the Six-Power Agreement remains unenthusiastic (CIA 6-48). Both major parties, the Social Democrats and Christian Democrats, argue that the people are more concerned with economic than with constitutional problems and hold that nothing more than a basic administrative statute could be formulated in present circumstances. In keeping with this attitude, the representatives of the eleven Western Länder have agreed to the proposed establishment of a central administration at Frankfurt, but have requested that the words "constitution" and "government" not be used with reference to it.

GERMANY

The initial effects of currency reform in the Western Zones have been generally good. The ultimate effect will depend largely on increased production of consumers goods before goods hoarded hitherto have been sold off. In contrast, Soviet currency reform appears to have been hasty and slipshod. Despite the precariousness of the situation in Berlin, Western marks are at a premium there over Soviet marks.

The German population in the Western sectors of Berlin continues to be strongly anti-Soviet in attitude. Its faith in the Western Powers has been strengthened by their evident determination and the scale on which supplies are being flown in. These Germans will generally remain steadfast in this attitude unless their will is sapped by starvation or by conviction that Soviet occupation is inevitable.

The British embargo on shipments into the Soviet Zone has had a damaging effect on the economy of that area and has correspondingly enhanced the bargaining position of the Western Powers with respect to the blockade of Berlin.

9. YUGOSLAVIA (see also para. 3).

Even before Tito's break with the Cominform, the Yugoslav economy was in difficult straits (CIA 6-48), largely because of the inability of the USSR to deliver capital goods, and Tito had shown anxiety to obtain from the West the economic support which the East could not provide. In present circumstances, and in view of the "technical difficulties" which have already arisen with respect to Danubian shipping and Rumanian oil, Tito will be all the more anxious to develop trade with the West. His economic need, however, is balanced by political necessity to avoid the charge that he has sold out to Wall Street, so that great delicacy is required in this matter.

THE NEAR AND MIDDLE EAST

10. GREECE.

The resistance met by the Greek Army in the critical operation of its summer campaign indicates that the guerrillas are not yet ready to abandon their cause as hopeless.

Markos, already apprehensive of Yugoslav designs on Greek territory, has no choice but to adhere to the Cominform in its quarrel with Tito. He will presumably receive the continued support of the Cominform, Albania and Bulgaria. Supplies stockpiled for him in those countries are sufficient to keep him in business for some time, if he can avoid defeat in the field.

11. PALESTINE.

Since 15 May the Jews and Arabs have experienced four weeks of bitter hostilities and four weeks of uneasy truce, without any weakening of either Jewish determination to establish a sovereign state or Arab determination to prevent it. The period of hostilities led to a military stalemate. The period of truce was advantageous to the Jews. The Arabs have now refused to accept an extension of the truce unless their proposals for a political settlement (a unified Palestine with restrictions on Jewish immigration) are accepted as the only basis for further negotiation.

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In the resumption of hostilities the Jews will probably seek to consolidate their control of the coastal strip and of Galilee and to gain complete control of Jerusalem. The Arab main effort will presumably be to reimpose their blockade of Jerusalem. The success of the Arabs is doubtful in view of their acute shortage of ammunition.

Unless the Arabs can force political concessions from the Jews within the next two months, logistical difficulties will probably compel them to withdraw their armies from Palestine. However, they can be expected to support guerrilla operations there indefinitely. Arab raids, non-recognition, and economic sanctions will isolate and harass Israel, impose upon it a heavy burden of defensive precautions, and stifle its economy. Israel will thus remain entirely dependent on the goodwill and support of some outside Power or Powers.

12. THE MIDDLE EAST.

The new Hajir Government in Iran gives promise of a resolute policy toward the USSR and even of some internal reform. Hajir's success will depend largely on the continued support of Qavam against the bitter opposition of anti-court and radical elements.

The potentially explosive Kashmir and Hyderabad disputes remain unsolved, but the danger of armed conflict between India and Pakistan appears not to be immediate.

THE FAR EAST

13. GENERAL.

Prevailing conditions throughout the Far East continue to be adverse to US strategic interests and favorable to the extension of Soviet influence. Fear and suspicion of US efforts to bring about the industrial rehabilitation of Japan are widespread. Uncertainty as to the continuance of US support for the newly elected government in South Korea and the rapid deterioration of the situation in China are both damaging to US prestige and influence. Southeast Asia has recently been the scene of intensive Soviet and Communist activity apparently intended to deny to the Western Powers the strategic materials produced in that area.

14. Korea.

The "National Assembly" in Seoul will probably establish a professedly national government for Korea on 15 August. The North Korean radio has threatened that, in this event, a national government, including South Korean representation, will be established in the North, and that this government will demand the withdrawal of all foreign troops.

In keeping with previous estimates, the Soviet strategy foreshadowed in this propaganda is to delay until US responsibility for the division of Korea is "proved" by the inauguration of a separate South Korean regime and then to establish the proposed Korean People's Republic in the North, with membership from both sections of the

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country, which the government at Seoul would lack. At the request of the People's Republic, Soviet troops would be withdrawn. At the September session of the UN General Assembly the USSR would then demand that the People's Republic, rather than the government at Seoul, be recognized as truly national, and that US as well as Soviet forces be required to withdraw from Korea.

15. CHINA.

Within the past month the prestige and authority of the National Government have sunk to a new low marked by the sudden fall of Kai-feng and the spectacular decline in the value of the Chinese dollar.

The National Government has no program for arresting the continuing deterioration of the situation. Despite increasing criticism, Chiang Kai-sek continues to rely on personal adherents, including many of proved incompetence. In default of effective national leadership, provincial authorities tend increasingly to shift for themselves on a regional basis. This tendency, involving conservation of local military and economic resources, hastens the disintegration of the national effort.

Continuation of the existing trend in China will inevitably result in chaos, from which will emerge either general Communist domination or a new period of regional war-lordism.

16. SOUTHEAST ASIA.

The extent of Soviet penetration in Southeast Asia (CIA 6-48) has been rendered more apparent by the outbreak of violence in Malaya, where local Communists (predominantly Chinese) are conducting a campaign of destruction and terrorism against the operation of rubber estates and tin mines. A major British effort will be required to safeguard the continued production of these strategic materials.

At the same time, the endurance of Vietnam as the principal stronghold of Communist influence in Southeast Asia is underscored by the ineffectualness of the French-sponsored Xuan regime and the ambiguity of French policy toward it.

By supporting native nationalism throughout Southeast Asia the USSR is not only undermining Western political domination of that area and spreading Communist influence there, but is gaining a capability to deny the strategic resources of the region to the Western Powers.

17. THE PHILIPPINES.

The grant of a general amnesty to the Hukbalahap and the seating of its Communist leader, Luis Taruc, in Congress may result in solving the Philippine Government's most vexatious internal problem, if the Huks actually surrender their arms, as required, and the Government actually carries out promised agrarian reforms. This reversal of the policy of the late President, however, is a further manifestation of an increasingly nationalistic (anti-US) trend in Philippine politics. Taruc, as a Com-

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munist, opposes US influence under color of ardent nationalism and in effect has imposed his own terms on the Government as a precondition of his acceptance of amnesty.

LATIN AMERICA

18. GENERAL

It is becoming increasingly evident that Latin America is approaching a political and institutional crises which may seriously affect its ability to afford valuable cooperation to the United States. Stability in the region has been shaken by the impact of rising import prices on raw material economies, by the disappearance of many of the former bases of political power, and by the ability of the extreme right and the extreme left to exploit the growing power of labor. Merely palliative measures, such as repression of Communist parties, are unlikely to cure the underlying unrest, or to create a new broad basis of political power, or noticeably to diminish the capabilities of subversive elements to exploit the disturbed situation. Continuing tension between international alignments in the Caribbean, internal struggles for power in Panama, Ecuador, and Peru, instability in Bolivia, and the long-continued inability of the President of Chile to govern without extraordinary powers are symptoms of the general condition of affairs. Even Argentina, a few months ago seemingly stable and prosperous because of advantages seized in a sellers' market, must now, with the disappearance of these temporary advantages, consider increasingly authoritarian measures to augment production and may, falling substantial US aid through ECA purchases or otherwise, yield to nationalistic pressure for non-cooperation with the United States. Generally increasing pressure for US aid is merely additional evidence that Latin American leaders cannot find within themselves or their countries the means to restore stability and achieve real authority for their governments.

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APPENDIX

DEVELOPMENT OF THE WORLD ECONOMIC SITUATION DURING THE
SECOND QUARTER OF 1948

GENERAL

World economic recovery, as measured by industrial output and international trade, continued its upward trend during the second quarter. Increase in the availability of consumer goods, however, is still restricted in many industrial countries by the imperative need for reconstruction of war-damaged facilities and modernization of industry. Prices of most internationally traded primary commodities remained firm; the price of wheat, however, declined about 5 percent, while prices of several metals, notably tin and lead, increased. Work stoppages attributable to strikes and labor unrest were comparatively few during the quarter, but Communist-instigated labor disturbances remain a serious threat to production in parts of Western Europe and Southeast Asia.

STEEL AND NONFERROUS METALS

Steel production expanded at an accelerated rate in several of the major industrial countries. The United Kingdom, still lacking hoped-for quantities of scrap from Germany as well as high-grade imported iron ores, reached a rate, at least temporarily, of 15.5 million metric tons per year. France was producing steel at a rate of 7.7 million metric tons annually, which rate was above expectations. In the Bizone of Germany steel was being produced at an annual rate of about 4.25 million metric tons, somewhat below previous estimates of probable productive capacity. This short-fall may be corrected yet this year if more high-grade iron ore is obtained from foreign sources and an adequate share of domestic scrap and coal are allocated for this purpose. In the United States, steel output was set back temporarily in the spring owing to the coal strike; at that time production declined to about 70 percent of capacity, but by mid-year it had reached an annual rate of 82 million metric tons, equal to the wartime maximum. World-wide requirements for steel, however, continue to exceed availabilities. Supplies of chrome, nickel, and other alloy steels and steel-alloying metals, although not plentiful, are in general meeting minimum requirements.

Nonferrous metals continued in short world supply as demand was maintained at a high level. This world shortage may grow more acute during the second half of 1948, although some Western European countries will obtain larger supplies under European recovery program than were available to them during the first half of the year. With demand running persistently ahead of production, prices of lead, tin, aluminum, and antimony increased during the second quarter. With a continuation of the

tight supply, nonferrous metal prices may be expected to hold firm throughout the remainder of the year.

The production of lead and zinc is increasing in Canada, Mexico, Australia, and the United States, although Mexico had a marked set-back in the early spring owing to labor strikes which have since been settled. In Australia any increase in the availability of mine production will depend on improvement in transportation facilities.

Copper production in Canada, Chile, and the United States is increasing, but there is little change in Northern Rhodesia and the Belgian Congo.

Mine production of tin in Malaya and the Netherlands East Indies is larger as a consequence of rehabilitation of the mines, but local authority in Malaya is presently being threatened by terrorist activities which are in large part Communist-inspired and directed. There is also some improvement in Bolivian tin production whereas the rate of production in the Belgian Congo and Nigeria has not changed materially.

The antimony shortage is becoming more serious. Bolivian output is increasing, but production in China is only a fraction of normal. Mexican production was impeded by labor difficulties in the spring of the year and by the wide discrepancy between the price paid for ores from small producers and the world price for the metal.

Aluminum production has been hampered by shortages of soda ash and electric power in Europe and by floods and shortages of electric power in the United States. There were, however, substantial increases in output in Canada and Norway. Supplies of secondary aluminum accumulated from war scrap in European countries and the United States are virtually exhausted. Bauxite production has increased much faster than aluminum; consequently, there were no shortages of that raw material except where in a few instances transportation was a temporary bottleneck.

COAL AND PETROLEUM

Compared with the same period last year, output of coal was larger in the principal coal producing countries, except the United States, where about 48 million tons of coal were lost through strikes. The smaller volume of coal mined in this country did not appreciably interfere, however, with meeting the requirements of Western Europe, in view of the rising output of coal in the United Kingdom, Germany, Poland, and France. Moreover, increased production in Europe reduced the tonnages required from the United States, thereby releasing dollar exchange for other purposes. Aside from some shortage of coking coal, European output plus imports was generally sufficient to meet requirements, although transportation was at times inadequate to move coal out of Germany and Poland to importing countries.

World production of petroleum, except in a few areas, notably the Satellite States of Eastern Europe and recently Iraq, has been running well ahead of last year. Production was adequate to meet mounting requirements in the United States and elsewhere in the world except in some parts of Europe, the Middle East and Far East, where inadequate refining and transportation facilities have caused shortages of refined products.

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RUBBER

World production of crude and synthetic rubber is now ample to meet demands for current consumption. Synthetic rubber production in Canada, the Soviet Zone of Germany, and the United States has declined in recent months compared with the corresponding period a year ago and will be substantially less for the year as a whole than for 1947; synthetic rubber production in Western Germany ended on 1 July. The large output of the USSR, however, is expected to increase moderately in 1948.

Communist-instigated disturbances in Malaya, which produces about half the world's supply of crude rubber, may, if continued, seriously curtail rubber production in that area. In such eventuality United States operating and standby capacity for synthetic rubber would be ample to offset a substantial decline in receipts of Malayan rubber.

Increasingly large Soviet purchases of Malayan rubber at premium prices and with provision for special packaging indicate stockpiling of that commodity by the USSR.

CHEMICALS AND FERTILIZERS

The world-wide shortage in many chemicals, including nitrogenous fertilizers, continues. Scarcity of alkalis, coal-tar crudes, nitrogenous fertilizers, and other basic chemicals will not be alleviated for a year or more, but improvement may be expected as coal supplies increase and new or rehabilitated production facilities become available.

The alkali shortage has limited production of rayon, glass, aluminum, and many industrial chemicals. Recent increased production of alkalis in Western Europe has been due principally to rehabilitation of war-damaged plants and increased supplies of coal. No new major production facilities are expected to come into operation in that area for a year or two. Over half of the German production is in the Western Zones, where several important plants were severely damaged by bombing. In the USSR a large part of productive capacity of alkalis was destroyed during the war and will not be fully restored until 1950 or later. Output of the Eastern European Satellites has not regained the prewar level. In the United States, increased capacity recently completed is still insufficient to meet both the domestic demand and the export demand, the latter mainly from Latin America and Southeast Asia.

The shortage of coal-tar crudes, which are used mainly by the plastics, dye, and synthetic organic chemicals industries, is directly related to the rate of operation of by-product coke ovens, which in turn are dependent on adequate supplies of coking coal. In Western Europe the improved coal situation, which had previously limited operations, made possible an increase in output of these products. Further rehabilitation of plants and a few new installations, together with adequate supplies of coal, should materially alleviate the shortage of crudes in that area before the year-end. In the USSR the large number of by-product coke ovens destroyed during the war are in process of restoration, but reconstruction work will not be completed until 1950 or later; consequently the shortage of coal-tar crudes in that country is acute. In the

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United States the second quarter coal strike resulted in a substantial reduction in output of coal-tar crudes, the domestic and export demands for which show little sign of abating.

Chile, the United States, the United Kingdom, and Belgium continue as the world's largest postwar exporters of chemical nitrogen, although the United States is on a net import basis. The more than doubled output of the last three-named countries since 1937 has not been sufficient to compensate for production losses in other former major producing countries. Germany, once the largest producer and exporter of synthetic nitrogen, now depends partly on imports because of war-damaged or dismantled plants and restriction of production by the occupying powers. Japan, formerly the second largest producer of the synthetic product, now depends on imports to a much greater degree than formerly. Rehabilitation of plants in the Netherlands, France, Italy, and Poland, and operation of German plants at greater capacity, together with more plentiful supplies of coal, will reduce the nitrogen shortage in the current fertilizer year. The USSR, although exporting small quantities of nitrogen to neighboring states and India, is increasing as rapidly as possible its chemical nitrogen industry, a large part of which was destroyed during the war.

FOOD

The per capita supply of staple foods in Europe, Asia, and certain other areas remained abnormally low. This was especially true of cereals, meat, and fats. The situation was alleviated somewhat, however, by larger exports of grain from the United States than had been anticipated and by an exceptionally mild winter and early spring in Europe, which increased significantly the production of dairy products and vegetables.

The acreage planted to food crops to be harvested in 1948 showed a substantial increase over plantings in previous postwar years. In general, temperatures and rainfall have been favorable to the early growth and development of crops, particularly in North America and Europe, thus indicating a 1948 food harvest almost equal to prewar harvests.

WORLD TRADE

World trade continued to increase during the second quarter of the year, although trade and exchange controls were almost everywhere maintained. Increases in production of goods for export, in combination with a ready world market, contributed largely to the continued world trade expansion.

Trade among the Western European countries, however, is currently impeded by serious payments problems, which in turn reflect the economic vacuum left by Germany and the inability of the United Kingdom to assume its prewar role in European trade. Although European countries have made substantial gains in reviving their export trade, it is estimated that their current volume of exports is only about two-thirds that of 1937. The volume of European imports, on the other hand, approaches or surpasses that of the immediate prewar years. The United Kingdom, however, is a notable

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exception in both cases. The exchange and transfer problems thus generated have been heightened further by rising price levels. Western European exports, though lagging below prewar, have increased moderately since a year ago. Eastern European countries are exporting little more than half their prewar volume.

Exports from the United States fell well below the level for the corresponding months of 1947 primarily as a consequence of the world shortage of expendable gold and dollars. Nevertheless, on a quantum basis United States exports during the first half of the 1948 were at a rate about double that of the prewar years. United States imports, on the other hand, though increasing in volume moderately over the level of 1946-47, were only slightly above prewar. Consequently, the dollar gap between United States imports and exports continued to be large and contributed cumulatively to monetary and exchange problems abroad. In 1946 and 1947, the United States had a net export balance of roughly 5 to 10 billion dollars respectively; in 1948 its export balance was at an annual rate of about 6 billion dollars.

The progress toward economic recovery observed in this summary of developments during the second quarter of 1948 is encouraging. It must be strongly emphasized, however, that the attainment throughout the world of conditions of economic well-being, even approximating those prevailing before the war, will require still higher levels of production in many countries and a larger volume and better balance in world trade than at present.

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10 December 1948

MEMORANDUM FOR THE PRESIDENT

The recent action of the USSR in recognizing an east Berlin government is representative of the shift which has taken place in the Kremlin's attitude concerning its capabilities in the Berlin dispute. Originally, it appeared that the Soviet Blockade of Berlin was designed primarily to gain western power concessions regarding western Germany and secondarily to force the US, the UK, and France to evacuate Berlin. The refusal of the western powers to negotiate under duress has apparently convinced the Kremlin that its chance of gaining the primary objective is remote. Soviet strategy is now concentrating upon the secondary objective, with a view to forcing the West either to evacuate the city or to negotiate on terms which will make the western position in Berlin ineffective and eventually untenable.

Stringent blockade In pursuit of this objective, the USSR may now impose a more stringent blockade of the western sectors of Berlin. The USSR can cite the recent "illegal" elections in the western sectors, or the possible introduction of the western mark as the sole legal currency in the western sectors, as an excuse to throw a cordon around the western area and thus enforce a blockade much more effective than the present one. The successful sealing-off of the western sectors of the city, combined with the establishment of the east Berlin government, would seriously damage both the political and the economic position of the western powers in Berlin.

Political effects In the political realm, the effect of this double action would be to: (1) destroy all pretense that Berlin is a unified city, thereby making UN agreements on overall Berlin affairs all but impossible to implement; (2) hamper the administration of Berlin's western sectors by cutting off the operation of public utilities and services on a city-wide basis; (3) dispirit pro-western elements in both the east and west sectors; (4) diminish Berlin's accessibility as a political sanctuary for anti-Communist Germans and Soviet deserters; and (5) reduce the capabilities of the western powers for supporting anti-Communist factions in the Soviet zone.

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Economic effects: The economic effects of this action would be to: (1) drastically reduce commerce between the east and west sectors, which now permits the blockaded Berliners to maintain a minimum business activity, thereby making it necessary to considerably expand the airlift; (2) increase physical hardship and curtail business activity through the probable stoppage of public utilities now supplied from the Soviet sector of the city; (3) cut off thousands of Berliners who live in one sector and work in the other from free movement to and from their work; and (4) force the western powers to make the western mark practically the sole currency for their sectors of Berlin in order to support the trade formerly conducted in eastern marks and to overcome the currency shortage.

Soviet position: The intensification of the Soviet blockade of Berlin, combined with the establishment of the Soviet sector government, will considerably bolster the bargaining position of the USSR. In response to future UN recommendations, the USSR may insist, as a condition to further negotiations, either that UN action is applicable only to the western sectors of Berlin or that the Soviet-controlled regime of eastern Berlin must be recognized as the sole legal government for the city. More likely to seem an appealing solution to the neutral nations in the UN, however, would be a claim by the USSR that the Soviet-dominated administration of eastern Berlin must be merged into any Berlin government. Acceptance of this claim would permit the USSR to regain an indirect control over key positions in the western city government, leading to a probable future assumption of complete administrative power. Such control would enable the USSR ultimately to realize its objectives in the Berlin dispute.

Russell H. ...
R. H. HILLGROVER
Rear Admiral, USN
Director of Central Intelligence

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SOURCE

- The head of the Kriminal Direktion of the East Berlin Police stated on 28 December 1948 that the complete sealing of Soviet Sector streets leading into the western sectors is to be carried out soon. With the exception of a few main thoroughfares, the streets will be closed with wooden barriers. Traffic through the streets remaining open will be closely checked by foot patrols. Vehicles attempting to pass from the Soviet Sector to the western sectors without a proper police permit are to be summarily confiscated. (Source Comment: Police officials are aware that it is impossible to hermetically seal the sector boundaries. It is assumed that the Soviets want to show their strength by the control of motor traffic and add further discomforts to life in Berlin.)
- The following measures are being taken to increase sector boundary controls:
 - Paul Markgraf stated at a meeting of his staff on 10 December 1948 that the auxiliary police (Nachpolizei) would be absorbed into the uniformed police (Schuttpolizei).
 - The duties of the auxiliary police are to be taken over by civilian guards.
 - On 21 December according to the Markgraf Kriminal Direktion, the sector boundary patrols were increased by 1000 men. Police dogs were to be used.
 - According to a less reliable sub-source, 2000 Land Saxony paramilitary police garrisoned in Berlin-Friedrichshagen are to be absorbed into the Soviet Sector police on 28 December.
 (Field Comment: There are 1900 auxiliary police in the Soviet Sector. If the above figures are correct, this means that the uniformed police of the Soviet Sector have been strengthened by 3300.)
- Increased control of U-Bahn and S-Bahn passengers at the sector boundaries began on 26 December. Police are under instructions to confiscate all packages larger than brief cases. There is no legal basis for such confiscation. Markgraf was instructed by the Central Komendatura to issue a police proclamation justifying the action. The police met with scattered resistance from outraged passengers. Railroad personnel showed passive resistance and in many cases, gave passengers warning or concealed parcels. As a result police assigned to this duty are being strengthened.

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GAI instructions to the Markgraf Police Presidium, until 1 March 1949. Such persons, meanwhile, are allowed to proceed as before if they are not transporting merchandise. (Field Comments: See also SO-10231 on Brandenburg Police measures to tighten the blockade.)

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DATE OF INFO. 6 January 1949

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1. In an informal discussion, the informant, whose duties include the ideological and military-technical training of Soviet Sector police officers, expressed his conviction that in the foreseeable future the western sectors of Berlin will come under the influence of the German Economic Commission or of the staff now constituting that agency. The informant based this conclusion on the instructions which he receives in connection with his work of training the "activist" elements in the Markgraf police. This training includes weapons training for street fighting, with emphasis on local conditions in Greater Berlin, and political and ideological indoctrination and training.
2. According to the official instructions, ideological indoctrination should include discussion of the following two possibilities regarding the future of Berlin:
 - a. At a given time the Soviet occupation power will transfer all authority in the Soviet Zone and Greater Berlin to a government formed primarily on the basis of what is now known as the German Economic Commission. At the same time the bulk of the Soviet armed forces now in Germany will retire, leaving only a few key locations occupied. Subsequently, the Western Allies will be prevailed upon to take similar measures at least in Berlin and possibly in Western Germany. It will then become the task of the Berlin police forces to insure that the western sectors recognize the political authority of the Soviet Zone government.
 - b. If the above described possibility cannot be realized, it is still expected that under clandestine SED leadership, riots and disorders will be organized in the western sectors of Berlin. The disorders will be organized on a large enough scale to justify the "legal" Police President Markgraf's ordering rollable Soviet Sector police into the western sectors to restore order. It is hoped that the outcome will be a "fait accompli" which will eventually lead to the liquidation of the western sectors into the Soviet Zone. To carry out this plan, the Soviet Sector police force is being systematically reinforced by reliable and loyal Soviet Zone policemen, and several closed formations of Soviet Zone police are being deployed around the west sector boundaries.

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INFORMATION ~~SECRET~~ REPORT
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TRY Germany (Berlin)
ECT SED Preparations for Illegal Work
in Western Berlin
RED Germany, Berlin
OF INFO. February 1949

REPORT NO. [REDACTED]
CD NO. [REDACTED]
DATE DISTR. 7-Mar 1949
NO. OF PAGES 2
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SUPPLEMENT TO REPORT NO. [REDACTED]

3/22

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- The view is now held by higher SED officials and informed functionaries on the SED Kreis level that the nature of party work in Berlin will be basically changed soon. These functionaries point to the recent division of the SED and KPD as an example of how the situation in Berlin will develop. They expect a clear distinction between the normal SED party work in the Soviet Sector of Berlin and the work to be done in the western sectors. This distinction will be forced by an outlawing of the party in the western sectors. All necessary initial preparations for illegal work in the western sectors have been made, particularly in the selection of personnel. The Landesvorstand of the SED will be able immediately to delegate assignments to party members who are known to be reliable, and has already selected safe houses and clandestine meeting and storage places. The Landesvorstand's attitude on the western sectors is demonstrated by its unwillingness to allocate money or supplies to them. One functionary said on this point: "When a business man sees his business going broke, he naturally doesn't throw more money into it."
- The considered opinion among informed functionaries is that on going underground the SED membership in the western sectors will fall at once to five or ten per cent of its present strength. The loss in numbers will be compensated for, however, by more intensive and efficient work than is possible with the present cumbersome party organization.
- The first measures of the illegal party work will be:
 - Intensive propaganda on a nationalistic line, stressing unity, freedom, reconstruction, and the two-year plan, and the "colonial politics" of the Western Powers.

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- 2 -

- b. Intensification of party work in western sector industries, particularly in those factories which have had to curtail production and in the Siemens plants.
- c. Penetration of the bourgeois parties, especially the SPD, and mass organizations (UGO, VVN, Sozialhilfe) in the western sectors.
- d. Rebuilding the Rotfrontkämpferbund outside the party and the organization and training of small "goon squads". At present only the organization of these groups has been decided on; specific assignments and work for them will be determined later.
- e. All supplies, equipment, files, and other party property which can be stored are being moved to storage points in the Soviet Sector.

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II-18: (Continued)

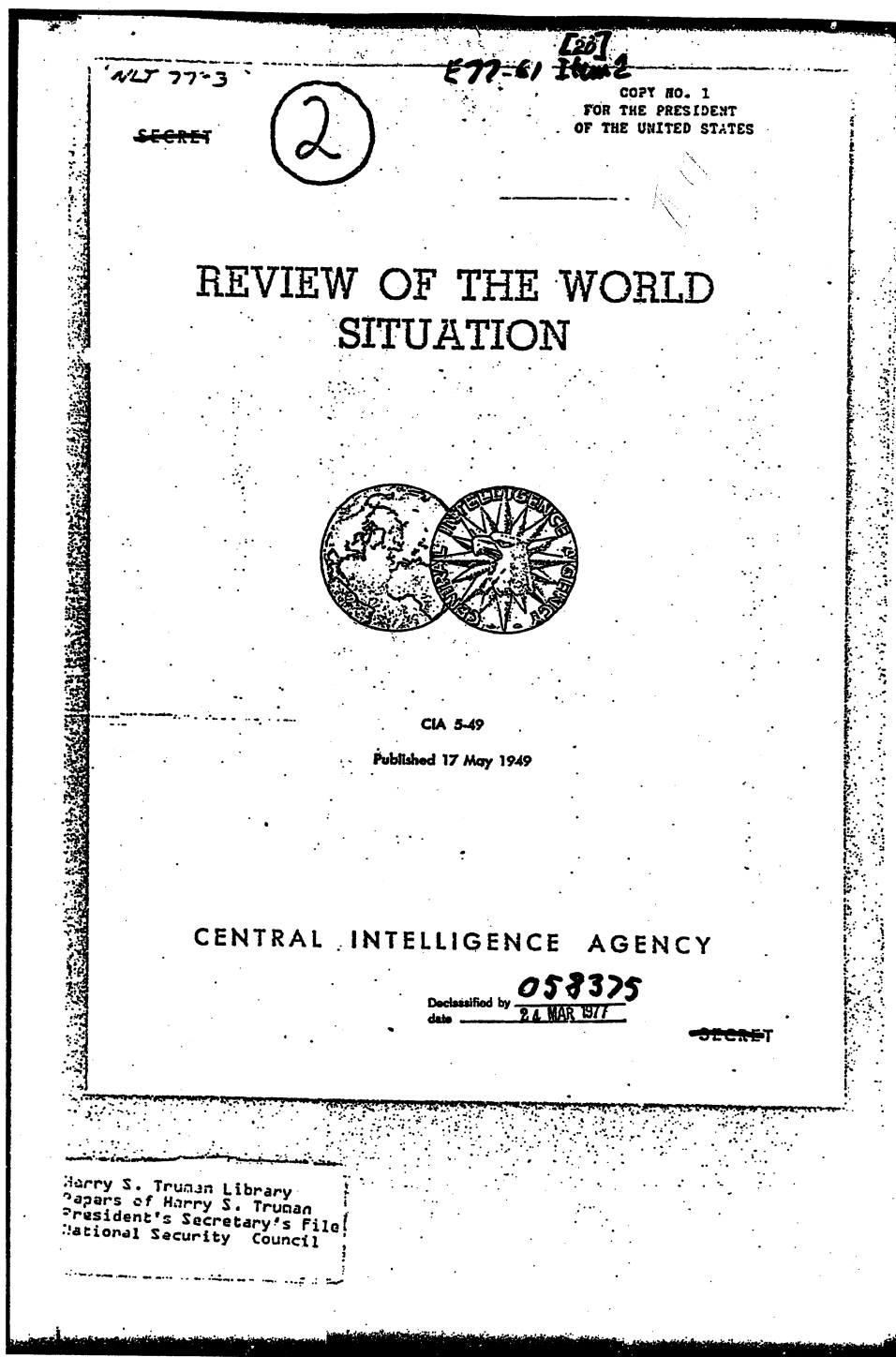
dues and, at least, the passive allegiance of the inactive
masses in the party.

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY
OF THE UNITED STATES

SUMMARY

1. The context of power relations in which the USSR has lifted the Berlin blockade and secured Western agreement to reconvene the CFM is such as to suggest that the USSR may intend to seek some sort of agreement. There is no evidence that necessity obliges the USSR to seek agreement. There are, however, elements in the situation to justify thinking that the USSR may desire agreement in order to pursue its long-term objectives by other methods.

Analysis finds two basic alternative courses before the USSR. The first is to enter negotiations solely in order to attempt to delay and confuse Western policy. The second is to enter negotiations with the intention of reaching an agreement that would:

a. At the minimum, remove Germany as a "bone of contention," while permitting the East-West struggle for the German potential to go on more slowly and through other channels.

b. At the maximum reach a *détente* with the West in Europe, in order to permit the fuller exploitation of opportunities elsewhere—especially in the Far East.

The first would be essentially a continuation of tactics that have already reached a point of diminishing returns. The second would constitute, not a change in fundamental objectives, but a genuine shift in the emphasis, timing, and direction of approach.

No firm conclusion can yet be drawn about a Soviet choice between these basic alternatives; but it is expected that the course of the negotiations will permit a judgment to be made. The logic of the situation suggests that the second alternative is the more likely to be developed.

2. There have been no significant changes in trends in the Far East, the Near East, or Latin America that require examination in relation to US security. Certain selected events, however, have been noted: (a) India remains a member of the Commonwealth; (b) the Greek guerrillas make peace proposals; and (c) Zaim's coup in Syria revives Arab disunity.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information herein is as of 13 May 1949.

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

1. GERMANY: BLOCKADE AND NEGOTIATIONS.

The situation created by the lifting of the Berlin blockade and by the agreement to reopen Four-Power negotiations on Germany is here examined in a broader context than that provided by the detailed issues that have accumulated around the German problem in the course of three and a half years. At least three such broader contexts can be identified. First, the global power relations and the respective power potentials of the US (and the West) and the USSR (and the East). Second, the over-all situation in Europe and its capacity to effect changes in the relative position and potentials of the West and the East. Third, the long-term importance, to both West and East, of controlling—or neutralizing—the potential of Central Europe (Germany and Austria).

Broad Contexts Examined

CIA 4-49, drawing up a balance sheet of the relative security positions of the US and the USSR, estimated that the global situation had slightly changed in favor of the US, primarily because of an improved position in Europe. It was further estimated, however, that the position in the Far East was definitely less favorable to the US. These estimates came at the end of a year in which the first phase of ERP was completed, a North Atlantic Defense Pact was negotiated, a military aid program was contemplated by the US, and Soviet plans for the consolidation and control of its orbit began to run into difficulties. During the same year, Chinese Communist forces brought about the collapse of Chiang Kai-shek's regime, and anti-colonial nationalist trends in Southeast Asia grew into serious political, economic and security problems.

At the start of this period, roughly December 1947, when the CFM (Conference of Foreign Ministers) in London broke down, the over-all picture was very different. Western Europe was then susceptible to an expansion of Communist influence. The moderate governments of France and Italy, in view of economic instability, industrial disorganization, and limited resources, seemed to have little more than an even chance of survival. Smaller states, though politically more sound, obviously sought neutral positions in a developing "cold war." The condition of the national economy of the UK left much to be desired in any calculation of a power balance. Western Germany still seemed likely to collapse economically in spite of heavy US subsidies. In the Far East, on the other hand, the Chinese Communists showed few signs of the knockout power they were to develop. Nationalist movements in Southeast Asia were still describable as the work of disaffected groups rather than as potent political trends.

In the context of 1947, the USSR, with very little evidence of an active US determination to restore Western Europe, had small interest in the maintenance of Four-Power harmony in Germany. Soviet policy for Europe as a whole and for Germany in particular called for little in the way of tactics except the obstruction of Western efforts to keep a bad situation from getting worse. Obstructionism and a readiness to exploit its

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consequences, working on an apparently well-defined drift toward political, economic and social confusion, might be presumed to be leading to Soviet hegemony in Europe.

However, a Western reaction to the state of affairs in Europe gradually developed under US stimulation; and, in addition, the long-anticipated economic crisis in the US did not appear. The strength of the reaction can be traced through the linked stages of ERP, the recession of Communist power in France and Italy, the reorganization of Western Germany, the growing integration of Western economic policy, the negotiation of the Atlantic Pact, plans for the rehabilitation of the military power of Western Europe, and the intention of establishing a West German federal government.

Initiative in the comprehensive competition for the potential of Western Europe was in danger of passing to the US. Soviet counter-measures began to be taken. The Satellite states were forced to refuse to participate in ERP. Communist-directed strikes, aimed at undermining the schedules for economic reconstruction, were initiated. A propaganda campaign against US "dollar diplomacy" was fully developed. These measures not only failed, but, by stimulating the West to increased efforts, actually began to create problems for the USSR within its own orbit.

While it is not likely that the USSR ever considered that the communization of Eastern Europe would be a pushover, it probably did not anticipate the difficulties that arose in 1948. When the Satellite states were cut off from participating in ERP, contrasts developed between the speed of economic reconstruction in the West and the slowness with which the communized economies of the Satellites were able to produce tangible benefits. Efforts to improve the situation by increasing Soviet controls and reorienting Satellite economies led to tensions which developed into nationalist deviations from the Cominform line.

The natural consequence of the breakdown of the CFM was a *de facto* partitioning of Germany. The West developed plans which would permit the ultimate integration of the Western Zones with a Western European system. The USSR developed plans which would permit the ultimate incorporation of the Eastern Zone in the Soviet orbit. As these plans developed, they began to produce a situation unfavorable to the Soviet interest. The USSR attempted to force a return to the *status quo ante* of unworkable Four-Power control. Pressure tactics were employed which finally resulted in the Berlin Blockade and the Air Lift. These actions completed the stalemate of US-USSR relations in Germany.

An essential factor in the situation was not, however, neutralized by this stalemate. An immense industrial and manpower potential still existed in Germany. The contest for the control of this potential underlay all the tactics, strategy, and tensions of US-USSR relations in Europe. The *de facto* partitioning of Germany primarily worked to bring this essential factor into sharper focus. The issue of ultimate control was more openly contested by political, economic, and psychological means. Short of actually using overwhelming force, however, the USSR now appeared to hold the weaker cards. Efforts to bring pressure to bear on the West, and the devices by which a firmer grip was taken on the Eastern Zone, perceptibly pushed the German people toward the West, if only as the lesser of two evils. Simultaneously, the success of the West in reviving the Western Zones acted as a supplementary pull. Finally, the Berlin Blockade

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and the Air Lift became, in German eyes, a test case of East-West strength. The test has now been interpreted—again by German feeling—as a victory for the West.

A direct consequence of the manner in which the contest for Central Europe developed has been the restoration of Germany to the strategic position it had previously occupied—that of an enormous potential lying between two power clusters, each of which seeks to attach this potential to itself, or alternatively to prevent its attachment to the other. The potential consequently becomes free to organize itself in its own interests. Germany has become a significant party to the problem of controlling German potential. While Germany obviously cannot at present take full advantage of being once more in this favorable position, opinion and policy in the states bordering Germany are hypersensitive to the possibilities inherent in it.*

There is little room for doubting that the cumulative effects of these developments was to oblige the USSR to reappraise the situation, and to look back to the period of an unpartitioned Germany as having been more favorable to Soviet interests and to regard the CFM as a useful device for projecting Soviet influence. This is the frame of reference for the Soviet decision which made it both possible and necessary for the West to undertake negotiations once more.

Soviet Timing

It is considered that the Soviet decision arises more from choice than from necessity. While signs have appeared that restrictions on Western exports to the Soviet sphere were retarding plans for the economic development of the entire Bloc, there is no evidence which indicates an approaching crisis. While it is true that the Western counter-blockade of the Eastern Zone of Germany has aggravated deficiencies in the economy of that Zone, there is no evidence which suggests that anything more than a gradual economic retrogression was resulting. These difficulties are far from constituting the sort of pressures that might force the USSR to seek an accommodation with the West in order to reduce them at all costs.

On the political side, the USSR has lost ground in Germany in twelve months. Its efforts to organize a rump government for the Eastern Zone have led to nothing very convincing. Related efforts to organize para-military police cadres have been equally behind schedule. The facade of a People's State that has been made ready does not appear to represent an effective and rollable counterweight to the political advances of the West or a check on the adverse effects of Soviet methods on German opinion generally. Yet, in the political field too, no immediately compelling pressures can be observed. The most that can be noted is that the substantial progress made by the West in reactivating German potential has generated a trend which, in the long run, could be contrary to the Soviet interest.

The over-all situation in Europe, however, throws some light on the decision. By and large the West was beginning to restore the balance of power in continental Europe.

* This is as true for Poland and Czechoslovakia in the East as for France and the Benelux countries in the West. Its existence somewhat checks both the US and the USSR in developing courses of action which the logic of their power relations might suggest as desirable.

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In consequence, attention was increasingly being focused on Central Europe as the one unsettled item in the balance. The previously satisfactory stalemate which the USSR had created in this area could not be indefinitely maintained in the new circumstances that were developing.

It is, accordingly, judged that the USSR, still free to choose its time, called for a revival of Four-Power negotiations before the moment at which it was estimated the West might be irretrievably committed to the positive course on which it was started. It is noted, in this connection, that the Soviet proposals were initiated after it was clear that the Western Powers were determined to set up a West German state but before that determination had been converted into fact. It is further noted that a propaganda campaign, the "peace offensive," was well under way before the proposals were made. This campaign, though designed to counter the Atlantic Pact, could be used also to keep the West from evading negotiations on Germany by setting too high a price. Western public opinion, though skeptical of Soviet motives, was still susceptible to the notion that peace was desirable and might be found in accommodation. Currently, the "peace offensive" is being used in an effort to cancel any loss of prestige involved in the lifting of the Berlin Blockade.

The Soviet decision, especially since it was accompanied by a willingness to retreat from formerly held positions, suggests the existence of a new reading of the existing power situation. Some further progress can be made by analyzing the positions that the West has taken and from which it asserts it will not be moved, and by considering the alternative possible courses of action open to the USSR.

The Position of the West

With the abandonment of Four-Power controls in Germany, Western policy has been concerned with three objectives. These are:

1. To defeat the assumed Soviet objective of communizing Central Europe and opening the way to USSR hegemony.
2. To fit the German potential into the developing system of Western European states, while guarding against an ultimately superior German influence in that system.
3. To reactivate Germany politically and economically.

The steps taken to realize these objectives, taken in spite of the difficulties of securing adequate Allied agreement concerning them, have put the West into positions in Germany where concessions with respect to details can scarcely be made without endangering purposes that have been vigorously pursued over a considerable period of time.

It is, therefore, assumed that a West German state will be firmed up, that the USSR will not be permitted a voice in the Ruhr authority, that the level of German industry in the Western State will be unilaterally set by the Allied Powers, that reparations will not be given serious consideration and that the political machinery established for the West German state will be so designed as to prevent the Communists from gaining control by pseudo-parliamentary devices.

It is further assumed that the USSR, as far as the present negotiations are concerned, is under no significant illusion about the difficulty of attempting to break these

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positions down.* This assumption leads to the possible alternative courses of action that may underlie the recent Soviet decision to seek to negotiate with the West.

Soviet Alternative Courses

Two obvious alternative courses of action are here listed and discussed. Each could be considered in several variant forms; but the discussion is confined to the basic pattern.

1. The USSR might enter the CFM simply with the intention of delaying the implementation of an already clearly indicated Western policy. No intent to reach agreement need exist, and concessions made in order to reconvene the CFM could be rescinded without essential prejudice to the general positions already established in a divided Germany.

This course of action would represent little more than the tail-end of a long-standing policy; namely, to prevent the consolidation of Western Germany and the reactivation of the potential of Western Germany as adjuncts of the power of the West.

The hopes of the USSR in this course may not yet be exhausted in spite of its plainly diminishing returns. Soviet proposals, designed to appeal to German desires for the withdrawal of occupation forces, a unified centrally governed state, and a peace treaty, might be made as one more effort to sow confusion in German political feeling and retard the progress of the West Germans toward a viable state long enough to throw Allied plans out of gear and to permit Allied differences sharply to develop.

However, it is estimated that the US (and the West) position has been firmly enough agreed and developed to check this conventional Soviet line. It is further estimated that the USSR appreciates the changed situation in Europe and is aware that its chances are slim of being permitted to engage in a long, devious, and inconclusive negotiation for no purpose but to confuse and delay. The possibility that Soviet policy is not fluid and still clings to established interpretations and methods must, however, be recognized.

2. The USSR might enter the CFM with the intention of reaching, as a minimum, an agreement that would remove Germany as a "bone of contention," while permitting the struggle for the ultimate control of German potential to proceed at other levels and by other channels; or, as a maximum, a *détente* with the West that would, by reducing tensions in Europe, permit a more concentrated exploitation of the opportunities that have apparently opened elsewhere in the world—especially in the Far East.

This course of action would imply that Soviet tactics to date have been written off as having failed to produce their intended results. It would further imply a decision to shift policy to the longer term and to seek its objectives by slower methods—the infiltration of Communist influence into the operations of a unified German state, and flank attacks on the power potential of Europe by way of the Near, Middle, and Far East.

The USSR, if preparing the ground for a policy shift of this order, might well make extensive concessions on existing issues; estimating that these issues would not be as

* The ability of the US, however, to maintain its over-all position throughout a negotiation is only as good as its ability concurrently to carry on persuasive talks with its Western Allies. Known and suspected differences are, therefore, continually open to probing and exploitation by the USSR, which is comparatively free from similar limitations.

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significant to long-term strategy as they have been to short-term tactics. This course of action, however, would have certain essential requirements. The USSR would have to seek to gain an economic *quid pro quo* that would permit a more rapid rate of industrialization. The USSR would have to feel certain that it could guard its Eastern European Satellites against Western democratic infiltration. The USSR would also have to seek a German state that it could hope to keep from firm alignment with the West, and a German Government in which the Communist Party could reasonably hope later to operate effectively.

A considerable degree of accommodation could be made before these limits were reached, and calculated risks might well be taken in the expectation that what was given away in the short-term could be taken back in the longer. The danger of a rapid restoration of Western European potential in consequence of a comprehensive *détente*, might presumably be balanced in Soviet calculations by the following considerations: (a) that the rate at which Soviet potential was being developed could be increased; (b) that the "inherent contradictions" of capitalist economy would ultimately reduce the effectiveness of the potential that Western Europe was recreating; and (c) that the fundamental balance of power in the world was being slowly altered in the Soviet favor by an effective development of Soviet policy in Asia.

This course of action would imply—not a change of fundamental Soviet objectives—but a genuine shift in the emphasis, direction, and timing of the Soviet approach to these objectives. Essentially it would suggest that a conclusion had been reached that the short-term opportunities in Europe were for the moment being exhausted but that the long-term opportunities in Asia were becoming ripe for the picking.

If this course should be developed, it will probably be combined with the appeals to German opinion noted earlier. In this connection, however, these appeals would be designed to force the West to outbid the USSR for German support rather than to address itself directly to Soviet proposals. The intent would be to secure a form of German State and political machinery more satisfactory to the USSR by putting the West under the necessity of accommodating itself to German feeling. The Western position, admirably fitted to come out ahead in a negotiation where agreement is not being sought, can only with difficulty be adjusted to meet the type of problem presented by a negotiation in which agreement is intended. The West would find it hard to refuse agreement, if concessions to its present position were freely made, even though it had clearly identified the Soviet purposes for wishing agreement. The pressure of Western public opinion to accept the immediate practical comforts of an agreement on Germany or a genuine *détente* in Europe might complicate negotiations for the West. Support could not easily be developed for dealing effectively with security problems remotely developing in Asia or concealed in the apparent confusions of domestic German politics.*

* It is noted that this introduces the probability of German opinion becoming a target of competitive bids for the future alignment of a German state. This would bring the question of French security decisively into the councils of the West and weaken the capacity of the West to engage effectively in such a competition.

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Conclusions

There is no evidence available at present to justify a firm conclusion with respect to a basic Soviet choice between these alternatives. It is to be expected, however, that the negotiations themselves will gradually permit a judgment to be made. Possible clues may be found in the actual worth of the concessions proposed and in the speed with which the USSR permits the negotiation to move toward tangible agreements.

It is considered that the tactics applicable to the first alternative may be used as an initial device for probing Western intentions and testing their firmness. It is also possible, if the Western price for agreement is so high as to spoil a calculated risk, that the adoption of the first alternative may be forced by default.

But, in the absence of special pressures within the Soviet system forcing the USSR to seek agreement, the logic of the situation suggests that the USSR is choosing to seek agreement, and that the second alternative is the one more likely to be developed.

In the context of the global power situation, the real issue before the CFM is not the settlement of Germany, but the long-term control of German power. If the CFM is able to avoid the real issue, it may arrive at patched-up, temporary solutions for the secondary problems. However, none of the parties to the negotiations, including the unrepresented Germans, will overlook the long-term question of who is going to control German potential and thus hold the balance of power in Europe. Agreement on Germany, or a *détente* in Europe primarily means that time is being taken to build up strength and to maneuver for positions elsewhere.

2. THE FAR EAST.

There have been no significant changes in the general trend in the Far East. The problems that have been created for US security are continuing to expand under the impact of numerous detailed events; but there has been no definite speeding up of admittedly unfavorable developments.

At two points only have signs begun to appear to suggest that more favorable positions might be developed in the course of time. One of these, India, is discussed in para. 3 below. The other is Indonesia, where the Dutch and Republicans have reached preliminary agreements on the restoration of the Republican administration and on issuance of a cease-fire order. Prospects for an eventual settlement appear to be better at this time than they have during the past year.

In China, the methodical Communist conquest of the Yangtze Valley is proceeding. Shanghai, though it can presumably be occupied whenever desired, will probably be left as it is for the time being. Trouble is to be expected as food and other shortages develop in the isolated city; but this will add little to the basic US problem. The Nationalist ranks continue to fall apart. Chiang Kai-shek is concentrating his efforts on strengthening Taiwan as his last retreat. Li Tsung-jen is trying to obtain recognition of his supreme authority in the crumbling National Government while at the same time preparing to fall back to his native province of Kwangsi. Autonomous

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movements are under way in the southwest and northwest provinces. The most pressing current problem for the US and other foreign powers is that of deciding the nature of their future diplomatic and commercial relations with the new regime which the Communists will certainly establish within the next few months. With respect to Hong Kong the UK has expressed its determination to defend that Crown Colony and has recently dispatched reinforcements.

The French military position in Indochina has become increasingly tenuous because of intensified guerrilla activity, particularly in the Sino-Tonkinese border region. Meanwhile continued French political control in Indochina is dependent upon former Emperor Bao Dai's ability to rally non-Communist elements to a new government and even more on the ability of the French Government to make liberal enough concessions to attract these elements. In Siam, political tension is mounting again. After making full allowance for the fact that the Siamese Government tries to capitalize on Western fears of Communism in order to get military and economic aid, it is evident that Chinese Communist successes are now genuinely regarded in Siam as a growing threat to Siamese security. The situation in Burma remains as anarchic as before. While the number and intensity of terrorist incidents in Malaya have declined during the last few months, Britain's security problem remains serious and there is no reason for long-range optimism.

3. UK-COMMONWEALTH-INDIA

The basis for a more realistic pattern of relations between the West and Asiatic nationalism has been provided by the recent Commonwealth Conference. The basis of cooperation devised by the Conference very properly ignored logic and precision in order to adjust the useful tradition of Commonwealth association to present political and strategic realities. It is of considerable importance in establishing a global balance of power that India is enabled to continue a member of the Commonwealth while remaining free to pursue its aspirations as a republic.

The linking of India with states, some of which are involved in supporting the US interest in Western Europe and others concerned in the US interest in the Far East, is of considerable value to US security. India, as the major coherent center of power at present existing in Asia, can on this basis come into working conjunction with the potential of the West.

The atmosphere of good will in which the basis of cooperation was worked out is an immediately valuable fact. Complementary interests were apparently so clearly understood that other considerations became irrelevant. The Indian interest in keeping Western military and industrial potential and technical competence related to the problem of realizing Indian aspirations was realistically balanced by the US-UK interest in having in Asia a locally powerful supporter speaking with a native voice. The development of these complementary interests into firm political, economic, and strategic cooperation obviously calls for time and tact; but the present situation should gradually add up to an improved security position for the US on, at least, the South Asiatic littoral.

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4. NEAR EAST.

The general situation in the Near East has undergone no significant change. Such events as deserve notice are of local concern and, for the present, have little or no relation to the larger and more pressing security issues now before the US.

The only possible exception to be noted is the bid for peace negotiations which the Greek guerrillas have made to President Evatt of the UN General Assembly. This may be designed to reinforce the over-all Soviet "peace offensive," and, if so, may be part of a broad adjustment to the situation analyzed in para. 1 above. On the other hand, there has never been a complete lull in guerrilla peace propaganda since the start of the year. At this moment, however, the guerrilla peace proposals may hit world opinion, much of which is ill-informed about the situation in Greece, with some effect. Certainly, the approach to Evatt was a smart move. He has displayed a tendency to rush towards opportunities to be a "Balkan Conciliator," in spite of lacking an adequate background; and he may be pulled into discussions which would by-pass the Greek Government with serious consequences for Greek morale and for the position of the West in Greece. The present proposal has been accompanied by a new major guerrilla offensive, by preparation for further activity, and by strenuous efforts to strengthen the Communist underground and to increase activities in the trade unions.

Turkey is still busy adjusting itself to its exclusion from the Atlantic Pact. The Foreign Minister has been in the US to discuss Turkey's security problems. He has been given reassurances of a firm US interest but no commitments that the US would enter a contractual security arrangement with Turkey. Requests for additional financial aid were channelled to ECA by way of OEEC. Opposition elements in Turkey will undoubtedly stress that the government has failed in its attempt to get a firm US commitment. However, the critics have nothing better to propose. The Foreign Minister proposes to visit Bevin in London on his way back to Turkey. It is possible that he may suggest some revisions of the Anglo-French-Turkish Treaty of 1939, which can be construed as a sort of security link for Turkey, by way of the UK and France, with the North Atlantic Treaty states.

The relations of Israel and the Arab states remain essentially stalemated in their armistice form. Israel's claims are being more cold-bloodedly examined by the Western world, even though Israel has become a member of the UN. The Arabs, largely as a result of the inter-Arab reactions to Zaim's coup in Syria, have lost all clarity of policy toward the Palestine issue.

Zaim's coup has had repercussions throughout the Arab world. The first reaction was alarm at the spectacle of a constitutional government being overthrown by force. When, however, the Syrian people accepted Zaim, although without enthusiasm, the leaders of other states began to vie with each other for his support. Iraq and Transjordan have tried to draw him into the Greater Syria camp. Egypt and Saudi Arabia have tried to persuade him to resist these Hashemite blandishments. The old problem of the balance of power among the Arab states came out of the cupboard in which the Arab League had shut it up. A rash of visits, counter-visits, notes, consultations, and conversations broke out. Zaim finally emerged with recognitions from Egypt,

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Saudi Arabia, and Lebanon; repudiated the Greater Syrian project; and declared his support of the Arab League. By this time, the Arab world was becoming alarmed at its own disunity, remembering that a peace with Israel was still to be achieved. Consequently, "discussions" have begun between Egypt and Transjordan to try to find some common ground again. In short, Arab relations are very much running in their normal channels.

As a footnote to this, neither Israel nor the Arab states appear to have much faith in one another's peaceful intentions. All are attempting to strengthen their military forces; but the Arab states also seem to have an eye fixed on inter-Arab animosities as they think of military equipment.

There have been some indications of a temporary let-up in Soviet pressure on Iran, coincidental with the departure of the Soviet Ambassador for consultation—an event that has produced a crop of rumors. Iranian leaders, although not immediately apprehensive of the Soviet menace, are calling for aid from the US in quantities comparable with that being given to Turkey. There is no indication that the attitude toward the USSR will be reversed.

5. LATIN AMERICA.

The Latin American states are watching with interest the developments following the lifting of the Berlin blockade. None of these states have illusions regarding the long-term motives of the USSR, but they hope that any relief in the tension between the US and the USSR may permit the US to pay more attention to the problems of the Western Hemisphere. Within the Hemisphere, inter-American antagonisms have been reduced. The quarrel between Peru and Colombia over the case of Haya no longer is critical; Uruguay's threat to prefer charges before the UN against Venezuela regarding the treatment of political prisoners is unlikely to materialize; and the potentially troublesome Havana meeting on Dependent Territories was conducted with reasonable restraint. The most serious and perhaps the most pressing situation in the area is that of Argentina where domestic economic problems, dropping world prices, and government bungling could very well have adverse effects upon that country's political stability.

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